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**MATERIALS FOR THE STUDY
OF ECONOMICS**

CURRENT ECONOMIC PROBLEMS

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CURRENT ECONOMIC PROBLEMS

A SERIES OF READINGS IN THE CONTROL OF
INDUSTRIAL DEVELOPMENT

EDITED BY
WALTON HALE HAMILTON

REVISED EDITION



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TO
FRED M. TAYLOR

To hold the balance true
between the material and the
human values of life is the oldest
and the newest economic
problem.

PREFACE

If intent has found expression in accomplishment, this volume is best described by its subtitle, "A Series of Readings in the Control of Industrial Development." The theory upon which the book has been constructed can be reduced to a few simple propositions which an increasing number of economists (and many in kindred disciplines) will regard as axiomatic. They are that our society is a developing one; that the institutions which make up its structure are interdependent; that industry occupies a place of prime importance in determining its nature; that current problems rest upon the triple fact of an immutable human nature, a scheme of social arrangements based upon individualism, and a world-wide industry organized about the machine technique; that current problems represent a lack of harmony between these elements; and that conscious attention to these interrelated problems is the means through which industrial development is to be controlled.

In this belief the editor has gathered together, adapted, and arranged the readings which follow. Variety and multiplicity are not inconsistent with unity. The experience of other teachers with this volume indicates that the thread of the economic discussion which the editor has tried to present in the words of the many writers whom he has used has not been lost, and that the argument, despite its multiplicity of authorship, moved forward from chapter to chapter.

It hardly needs to be said that at most this book gives only a perspective of economic problems. It aims to reveal the outstanding features of economic organization, not to make a detailed study of the institutions which make it up. Its intent is to translate current economic problems into the problem of the control of industrial development, not to deal with these problems separately or conclusively. Since one cannot know his subject without seeing it from the outside, it aims to present an outside view of questions of the day and to indicate their places in the larger universe which contains them. It aims to give the perspective which precedes specialized study and to make it real and relevant. It is no substitute for that specialized study itself.

Many teachers of economics found this collection useful in the form in which it was published three years ago. In this revised form it is hoped that the volume has regained some of the values of which the swift march of events has robbed it in the last three years. The fundamental idea upon which the book is constructed has, of course, been modified, but its identity has not been lost. The materials now included are of more immediate value as illustrations, but the conception of economics which runs through them is much the same. It hardly seems necessary to point out the many changes which have been made. The new reader will take the book for whatever it is worth, oblivious to its past. The curious one (if such there be) can easily discover the nature of the revision by a comparison with the first edition.

It remains for the editor to make some mention of his many obligations. He has drawn largely upon the classroom experience of those who were associated with him at the University of Michigan and the University of Chicago. He is under particular obligations to Mr. Fred M. Taylor, of the University of Michigan, and Mr. J. Maurice Clark and Mr. Harold G. Moulton of the University of Chicago. His obligations to L. R. Hamilton are too many to be catalogued here. The editor's obligations to various authors and publishers who have generously permitted the use of much valuable copyright material are set forth in detail in the bibliographical footnotes.

W. H. H.

AMHERST COLLEGE

August 12, 1919

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I

THE PROBLEM OF CONTROL IN INDUSTRIAL SOCIETY

The perplexing economic questions of the day, as we shall learn, are not simple little affairs which can be separated from the "prevailing system" and analyzed and "solved" in isolation. They are so closely related that a change in one affects many others. They are inseparable parts of that complex of institutions, traditions, conventions, and activities to which we attach the name Modern Industrialism, and they are intimately associated with the multifarious legal, political, economic, ethical, and social aspects of this larger system. It is, therefore, in view of this larger whole that our problems are what they are.

There is nothing singular in our possession of troublesome problems. They are the common heritage of the ages. When the universe was contrived enough of antagonism was left in it to keep some problems constantly before us. The sweep of change constantly adds new recruits to this array. It may be that somehow or other problems get "solved"; it may be that they merely become obsolescent and, like old machinery, are "scrapped"; it may be that they are forced to surrender their places to newcomers; or it may be that they tend to lose their identity in that of other problems. Perhaps all of these things happen; but, however that may be, old problems tend to disappear. But, strangely or naturally enough, as you may choose to view it, we never have an end of problems. As old ones depart, new ones, without awaiting welcome come forward. Some of these newcomers are old problems appearing in new forms; for, after all, there is much that is fundamental in life and institutions. The questions of efficiency, of poverty, of social classes, and of work and reward are as old as society. But some problems are new; and even the old ones are for us quite distinct from their predecessors—distinct in the economic status of the individuals affected, distinct in the scheme of values surrounding them, and distinct in the treatment for which they call.

All of these problems, old and new alike, are aspects of the development of society; they emerge or assume new forms as the social complex develops. They give evidence of a lack of compatibility somewhere between the many and various aspects of social life—between institution and institution, between activity and custom, between practice and ideal. Their conscious—or unconscious—solution is nothing else than a restoration of harmony between antagonistic elements. Since, too, growth is not uniform, their passing leads usually to the rise of new problems. Their "solution" has the further effect of contributing to the development of society; the process is advanced.

A word which we are coming to use repeatedly in discussing these problems is "control." Once upon a time that word was in good repute and people talked quite naturally about "obligations" and what the church, the state, or another social institution had a right to impose upon the individual. Then there came a period when we were quite conscious of our rights as individuals; when this word lost its vogue. Then it came about that we professed an adherence to *laissez-faire*, the principle of individualism, a belief in natural rights, or some form of doctrine to the effect that individuals should be free and social arrangements should be left alone.

In the latter half of the nineteenth century the spirit of individualism and the theory of *laissez-faire* were dominant. But increasingly we came to the

double realization that we were not letting all institutions alone, but only certain ones that some of us thought ought to be left alone and that, if we collectively were not controlling institutions some among us were. This, with a growing conception that *laissez-faire* has not imparted the most orderly direction to social development, caused us little by little to bring back into our vocabularies words like "direction," "authority," and "guidance," and to bring again a measure of conscious control into the scheme of arrangements which make up the world in which we live our daily lives. It led, too, to the elaboration of a theory of the control of economic life and social development.

But this newer stage, like others which have preceded it, has raised its problems. What is control? What are the agencies through which it is exercised? Why, after all, do we need it? It leads, too, to the most fundamental of all economic problems, because it is not an economic problem at all—of what are our ends? What are our aims? What is the industrial system for, any way? What can we do with it? And what is it doing with us? The answer to this larger question conditions our answers to smaller questions which are more properly economic. We need to recognize at the beginning of our study that the world is not all industrial and that all study is not in economics. But these questions are not enough for the moment. They are with us; or rather we will never get away from them. But just now we need to get on with our study.

A. MODERN INDUSTRIAL SOCIETY

1. The Essential Characteristics of Modern Industrialism¹

An understanding of the nature of modern industrialism is essential to an intelligent grasp of its problems and a rational attempt at their solution. Such an understanding comes most easily from a study of the process by which modern industrial culture has come to be what it is. Like all historical work of value, such a study must have a definite goal before it. It must aim to reveal those institutions, those intellectual and emotional forces, which have given character to the prevailing system, which are responsible for its problems and which condition their solution. For that reason it is best to begin the historical account of modern culture with a brief statement of its essential characteristics.

Modern industrialism is a peculiar culture; it is a thing apart. Nothing like it has previously existed. The Chinese system of the Far East, clinging tenaciously to the past, has developed a system which is a sprawling, conglomerate fact. The nearer Orient, India, for instance, has repressed self-assertion, has subordinated the material side of social life, and has produced, as if from a mold, a rigidly hard social system. Even the European states of the ancient world failed to organize themselves as industrial and social wholes. For example, the Greeks showed nowhere their inability at organization more clearly than in failing to associate the individual's gain from his labor with a service to a larger group. The unity achieved by

¹An editorial (1914).

Rome was a mechanical, not an organic, unity. Both alike despised manual labor, and, for that reason, failed to lay an adequate foundation for a permanent industrial system. How distinct is modern industrialism is revealed by a brief citation of some of its peculiar aspects. The list mentioned below is not intended to be all comprehensive and the characteristics mutually exclusive. It is merely a statement of some of the characteristics of our system which the student of current economic problems should keep clearly in mind.

First, America and Western Europe, Christendom, in fact, constitutes a single industrial society. Differences in race, language, government, and religious creed are almost negligible in comparison with what the Western World has in common. Even where these differences exist, the basic elements of these institutions are much the same. As ideal or actuality universality has long been a characteristic of the system. The Roman Empire was universal. When the earthly society disintegrated, it remained in idea as a universal, heavenly kingdom. The Catholic church, patterned after this heavenly society, kept the ideal alive when more substantial unity was impossible. Toward the realization of universality society tended to be organized in the Catholic church. At last, when the spell of Catholicism was broken, political, social, and particularly industrial and commercial institutions had tied the Western World together into a single industrial culture.

Second, Western Civilization is an extremely fluid culture. Few legal and authoritative restrictions are placed upon one's right to choose his own occupation. There are no hard and fast class lines. In the thought of the people there are practically none. Freedom of movement from place to place is allowed. In all of life's relations there is such fluidity that the adaptation of population, natural resources, and acquired capital to each other and to changed conditions is not only rapid but is constantly in process. Briefly, Christian teaching, the presence of the opportunities afforded by the American continent, and the industrial revolution, have all emphasized this characteristic.

Third, ours is a humanistic and a material culture. A contempt for human life and the material means to well-being, a denial "of the world, the flesh, and the devil," a desire to escape from "the vain pomp and glory of the world," has never been an essential part of the attitude of Western peoples toward life. Even monasticism came to be based upon the theory that life in this world is worth while. This institution became a means through which otherworld obligations, placed upon man by the peculiar conditions accompanying the disintegration of Roman society, could be vicariously satisfied by a small part of society, and the greater part could be released to live

the better life of the world. Men who fervently sing "For such a worm as I" and "This world's wilderness of woe, this world is not my home" do not discover new continents, invent printing and the steam engine, and erect world-wide industrial systems. Unlike Greeks and Romans with us the idea of the worthwhileness of life has carried with it the idea of the dignity of manual toil, which has furnished an adequate foundation upon which to build an industrial culture.

Fourth, our culture is in a very high degree a pecuniary culture. More than by any one thing our economic conduct is actuated by the desire for pecuniary profit. We go into those occupations promising the highest pecuniary returns. Our capital breaks over national barriers when the rate of interest abroad mounts higher. Even back in the Middle Ages, penance, a sacrament of the church, was put on a pecuniary basis. Escape from the consequences of certain actions was allowed to those who had accumulated wealth. Thus the accumulation of wealth and the stratification of society upon a pecuniary basis was encouraged. Today in the court, in the church, in the press, in social circles, the man of wealth is treated with greater consideration because of his wealth. The three characteristics mentioned above, fluidity, humanism, and the dominance of the pecuniary motive have made our culture a highly industrial culture, for it is in industry that these motives find their fullest expression.

Fifth, our culture places the value of human actions and institutions in some end or institution over and beyond themselves. The justification of individual activity is not to be found in personal good. The actions of individuals are found worthy of praise only because of a larger and a greater "society," toward which they are as means to an end. *Laissez-faire* is defended not as a means to self-aggrandizement, but as a theory of social welfare. "Big business" talks in terms of "pay envelopes," "full dinner pails," and "general prosperity." But the end from which the value comes is even less immediate than present society. The justification of the present is in the future. Back in the Middle Ages one's conduct was regulated by one's desire for his "soul's salvation." As men little by little ceased to have souls, and "life's fulness" came more and more to be recognized as life's end, the emphasis formerly attached to the other world associated itself with an ideal society which was striving for realization in the church. Even today, obscured as it may seem, an ideal future society is the potent force in evaluating conduct, individual and social. How potent is this idea of the future a few statements will show. We use "roundabout" processes of production. In legislation we seek to conserve the interests of capital, future goods, rather than give our attention to conserving immediate income. We speak in terms of

progress and evolution. We condemn, as never before, industry and politics because of its "shortsightedness." We give serious consideration to such a radical program of industrial reform as socialism. The value of the present thing is in large part a value derived from a future ideal. Thus a spirit of idealism, seeing a realization of its purposes in a less immediate society, is a very vital factor in determining the course of industrial development.

These several characteristics, material and emotional as all of them are, are vital because they underlie our culture, condition our growth, and must be clearly recognized in any program of political, social, and industrial reform.

2. The Current Stage in Social Development^a

It is in the economic world of here and now that we are interested. Amid its complex of activities, institutions, conventions, ideals, standards, and modes of thought we order our lives. Its multifarious and baffling problems are our problems—ours to "muddle" or to "solve." How we handle them will determine quite largely what the economic world of tomorrow is to be like. For these problems are aspects of our industrial system; they are incidents in the development of our economic society. They emerge, or assume new forms, as the larger whole develops. With its onward sweep severally they pass into oblivion, lose themselves in new problems, assume unfamiliar forms, or otherwise manage to get "solved." They are not distinct things; they cannot be detached from the larger scheme of affairs to which they belong. They cannot be disposed of in isolation, as if the universe were one thing and each of them another. They are intimately associated with each other, with the economic system to which they belong, and with the larger world, which includes the legal, political, ethical, social, and all other aspects of life, economic and non-economic. To understand them aright we must know something of this larger whole in its current manifestations. •

In its rapid development our society is approaching the end of what, in no invidious sense, we may call the exploitative period. Our development in the nineteenth century was dominated by our stores of natural wealth and by the use of an expanding and developing machine technique. The century witnessed the conquest of a continent, seemingly possessed of never-failing resources. The gifts of forest, waterfall, stream, soil, and mine, by the magic touch of modern technique, were transformed into a golden stream of wealth. The expanding system absorbed larger and larger volumes of capital

^aAn editorial (1915, 1919).

and increment after increment of alien labor. Its object and end was prosperity.

This process of getting rich absorbed quite largely our attention and our energy. Our thought was for virgin fields for machine effort. Our impatience was at the slowness of our very rapid industrial development. Our powers of control, so far as they were consciously used, were aimed at speeding up. We made no inquisitive search into our legal arrangements, our fundamental institutions, or our ethical standards. We did not perceive that development in one aspect of life leaves incompatibilities that need attention. It did not readily occur to us that improvement should occur elsewhere than in the technique of production, the growth of business organization, and the expansion of the pecuniary system. In short, we neither tried to discover, nor succeeded in discovering, society. We had problems, of course—many more than we had need for. But they were concerned with removing the barriers that opposed the establishment of a pecuniary system on a nation-wide plan.

This neglect of the non-industrial side of life expressed itself most conspicuously in a formidable and overgrown individualism. Since we were growing wealthy, all was well. We rarely thought of attributing responsibility for what we did not like to society, institutions, conditions, or environment. Quite as rarely did we attribute prosperity to the abundance of our natural resources. We firmly believed that each individual "was master of his fate"; that "opportunity knocks once at every gate"; that "there is plenty of room at the top"; and that successful men are "self-made."

This habit of thought worked its way into the whole range of our institutions. A fundamental assumption of individualism was that all men were equal. A resulting principle of action was that the state should give "equal rights to all, and special privileges to none." Equality suggested the attainment of political wisdom by calculation. Accordingly the object of legislation was "the greatest good to the greatest number." Since each person possessed one, and only one, vote, it was evident that our government was a democracy. In ethics our conduct was measured by individualistic standards. In education, by setting up the system of free electives, we made the individual student the best judge of the training that was good for him. In economics our attention was given very largely to the market; the distribution of wealth and proposals of social reform were alike treated as if they were mere questions of value theory; and we elaborated and generally accepted the doctrine that one "gets what he produces." Even our religious systems were characterized by an intense and dogmatic individualism.

It was, perhaps, inevitable that we should not escape looking at things too narrowly. We manifested a contempt for philosophy and general theory. We encouraged specialization, but overlooked the broad and general training which should underlie it. We investigated particular subjects without knowing the general fields to which they belonged. We attempted to resolve phenomena into general schemes without understanding the laws which govern the phenomena. We formulated, analyzed, and attempted to solve our problems as if they were so many distinct entities. We saw the whole only as an aggregation of parts, and society only as a collection of individuals.

Closely associated was a notion of social change in mechanical terms. When we became impatient with this or that, we demanded an immediate remedy. We turned to the state as the obvious agent, one which we professed to distrust, and demanded legislation. If our attention was not distracted by some new "abuse," we usually turned out the party in power if immediate results were not forthcoming. Even our reformers usually gave us panaceas for all social ills, or demanded a reconstruction of the whole scheme of life.

Many of our highest social values are associated with individualism. Its note must be retained to keep the system from being resolved into an orderly, mechanical, prosaic, and dull scheme of things. Without it, it is hard to see how society can most fully utilize its capacity for development. In the America of the nineteenth century it helped to solve the problems of a young society as perhaps nothing else could have done. The individual pluck, energy, and initiative which it called forth were just the qualities necessary to the gigantic and crude stage of development through which the country was passing. It remains in the present, however, in a very dominant form, thoroughly ingrained in our institutions and in the social philosophy of classes which occupy quite important positions in society.

But for some time we have been conscious that we are approaching the end of this exploitative period. We have by no means reached the end of our resources; but we have come to see that they are no longer boundless. It is evident that there is real danger of wasting our patrimony. Opportunities for sudden wealth are no longer plentiful. We have awakened to the necessity of economy, of giving long and careful thought to our social arrangements. We are beginning to find out, too, that our prosperity has entailed its costs. We gave conscious thought to securing a well-developed machine-system, a large population, and a large measure of individual liberty, believing that these would bless us with wealth. We succeeded in securing these things. But we neglected to take thought for the cultural incidence of the industrial system. As a result we have acquired a

number of things for which we did not ask, that may well be considered the costs of our material progress. Our urban life has its full complement of slums, overcrowding, vice and poverty. There is clearly evident a tendency toward a stratification of society on a pecuniary basis, with a funded-income class at the top and a proletariat of alien blood at the bottom. There is growing a spirit of protest based upon a philosophy quite foreign to that which underlies our cherished institutions. Our vast pecuniary system is making the lot of labor, and capital, too, for that matter, extremely insecure. Moreover, we are beginning to see that our prosperity is imposing its costs upon the next generation, in conditions and institutions which we did not will, in problems which we helped to raise but cannot solve, and in depleted resources with which to work out its social salvation.

As we realize these things, there grows up among us a reaction against the extreme individualism of the nineteenth century. We are imposing limitations upon what we conceive individual initiative and energy to be capable of accomplishing; we doubt if the ladder which leads to the top has its full number of rungs; all successful men are no longer "self-made." We occasionally even make excuses for the man who fails. We have discovered "environment," and speak quite frequently of "exceptional opportunities," "social conditions," and the "favor of fortune." We are beginning to associate those things which we do not like with an "overdeveloped individualism," and to see "grave dangers" in unrestricted liberty.

This change is manifesting itself in a changed attitude toward our institutions. Quite frequently we use the word "privilege" in connection with the activities of government. Seemingly forgetful of our former boasts, we are today demanding reforms which will make our government "democratic." We are not distrustful of the fundamental soundness of our legal institutions, such as property, contract, equality before the law, etc., but we are beginning to suspect that they bear too many signs of having been forged to meet the needs of frontier and craft societies; that they are more consonant with the plow and the spinning-wheel than with the powerloom and the locomotive. We are qualifying ethical standards which we regard as valid with the adjective social. In education the elective system is giving way to a flexible curriculum adapted to the newer society. A spirit of group and class welfare is expressing itself in such voluntary associations as the trade and craft unions, and is beginning to permeate legislation. We are beginning to trust the state, and are no longer affrighted by the cry of paternalism. In economics we use the term "social value"; we have begun to insist that economic theory is not confined to value theory; and we are more clearly recognizing that distribution of wealth and projects of

social reform are concerned with institutional arrangements. Our religious systems are more and more emphasizing the note of "social service."

With the reaction from individualism has come a protest against our habit of considering the particular apart from the general. We are beginning to learn that things in general matter; and that the reality of our problems lies in their connection with social life in its varied and multifarious aspects. We are realizing that specialization, to be anything more than clerical, must have a broad basis. We are coming to see that the whole is something quite different from the sum of its parts; that society is not a mere aggregation of individuals.

Quite naturally enough the impatience that comes from the newer view of things has enough of the older thought in it to place great reliance in mechanics. It wants results and wants them now. Instinctively it turns to the state and demands legislation. But, in spite of that, we are surely, if slowly, learning that there are decided limitations upon what can be accomplished by tinkering. We know that laws must be passed, and that there are many things which immediately they can be made to do. But we are beginning to understand that in many cases they produce their results, not from their direct enforcement, but from a series of reactions which they start, and these results can only gradually appear. We are learning, too, that there are other and more delicate instruments of control, such as the educational system, codes of professional ethics, occupational associations, and even conventions and traditions, that we may use in the furtherance of our schemes, and that these delicate instruments will reach many things too subtle and too minute to be touched by the bolder and cruder machinery of the state.

In view of this it is not surprising that we are at last learning that we do not have to be forever in a hurry. We must pay for what we get. Perfect societies are not El Dorados or Klondikes to be stumbled upon. A Utopia, even if it can be realized, cannot be juggled out of a hat by a social magician. We must through development gradually assume the social form we desire. Only knowledge is obtained; wisdom is attained. Even our socialists, who, only yesterday, were promising us "a new heaven and a new earth," have learned that there is a tomorrow.

And withal, in our radicalism, if you choose to call it such, we are becoming more conservative. If we have begun to ask impertinent questions about classes, property, and social arrangements generally, it is not because we are condemning, but only because we are socially inquisitive. We would prove all things in order that we may hold fast to that which is good. Yet more clearly than ever before

we realize the vastness, complexity, and even the mysteriousness of our social system. We know that we understand how various institutions and agents work very imperfectly. We know that many that seem to us to be without responsibility are intimately associated with some very important functions. We are not quite sure that we could create agencies which would perform the same functions more efficiently or with less cost. These things incline us to caution, to take easy steps, to examine results carefully before proceeding, and to use very flexible programs. But, if our knowledge is small, and if the difficulties are great, the call is for a greater determination, a more farsighted vision, a more careful, comprehensive, and patient study, and greater deliberation about ways and means.

In view of this particular crisis in our development we must consider our problems. We must recognize the part which the older society, the older institutional system, and the older individualistic thought have played and are still playing. We must as clearly recognize the newer tendencies, both in the institutional system and in the newer attitudes toward our economic arrangements. Many of these problems we shall find to be old. When the universe was contrived many antagonisms were left. The enigmas of rich and poor, of waste and poverty, of privilege and oppression, have been presented to us by the many ages which they have baffled. As likely as not we shall leave them as part of our heritage to succeeding generations. Some of them appeared with the machine-system, and have become more and more conspicuous as the newer technique conquered the continent. Of these are the problems connected with huge aggregates of wealth, such as railroads and capitalistic monopolies. Some come from incompatibilities between advancing and stationary aspects of social development. The legal problem involved in employer's liability is typical of this class. Some are manifestations of a later stage of the machine culture. Of this kind are the problems of the relationship of wealth to welfare in a society organized upon a pecuniary basis. Some have to do with the ends which industry should be made to serve. The problem of reorganizing industry to serve the needs of war and of converting it back to the uses of peace is a bundle of enigmas of this kind. Of some of these problems we have long been conscious. The events of the decade before the war brought others before us. The many problems raised by the war and the many changes following in its wake forced us to look less superficially at our industrial arrangements and revealed many things there which we had only remotely suspected. Who knows but there are many others which are with us, but which we cannot see because of intellectual blindness? But, old or new, familiar or unfamiliar, evident or invisible, all of these problems are part and parcel of modern indus-

trialism. They are all involved in the gigantic pecuniary system which knits together our social life. The oldest of them is with us a problem very different in form from its earlier prototype which confronted our ancestors. They are all aspects of the larger question., Can our society determine the direction of its own development?

To find an answer to such a question would involve a quest into all of life. Here we must modestly limit ourselves to a general survey of the current aspects of modern industrialism. Our procedure makes it imperative, first of all, clearly to realize that our system is developing and that in this development the various aspects of social life mutually influence each other. To that end it is well, first of all, to ask ourselves whether, or in what sense, we can control the development of industrial society. To be sure such an inquiry is a rather abstract one for the beginning of our study. But it has two distinct advantages. In the first place it gives us a large problem which can gradually be translated into more specific questions and general concepts which can little by little be given a content in the pages that follow. Second, it makes us conscious of the social importance of our task and prevents our losing sight of what we are about in a study of its details. After we have considered the problem of the control of industrial society, by inquiring into the "forces" causing development, the means of control we possess, and the theory of control that we are to make use of, we shall turn to a short historical account of how industrial society came to be what it is. This should serve the double purpose of illustrating the problem of control in a developing society and of revealing something of the nature of the industrial society with which we have to deal. The emphasis in this historical sketch falls appropriately upon "the antecedents of modern industrialism" and upon the series of changes which have given society its current structure and which we call "the industrial revolution." The partial control which we are to exercise over development is to come from our handling of particular problems. Accordingly we must next consider a number of somewhat different problems, always with a clear idea of their relations to each other and to the developing whole. The few which will be treated are typical of the many which confront us. These fall into two somewhat distinct groups, the first centering about the problem of the organization of industrial society, the second concerning themselves with human values and the welfare of the various groups which make up society as affected by the structure of modern industry.

The primary question in the first group is that of the mechanical perfection with which price organizes society. The problem is complicated by the rhythm of the business cycle. Associated with it is

the more difficult question of whether such an organization, quite apart from its mechanical perfection, can be made to serve the ends we would have it serve. This involves, among other things, a consideration of the extent to which, and the means by which, it can be adapted to an end outside itself, as, for instance, effective service in warfare. An aspect of this larger problem of organization is the question of the extent to which the economic entity should be made to correspond to the political entity; this appears most clearly in the issues which center in the tariff. Internal problems of organization, of tremendous social consequence, particularly in the tendencies implicit in their gradual solution, are found in the regulation of railroads and capitalistic monopolies.

Of the second group of problems, perhaps the most comprehensive is that of the control of population, quantitatively and qualitatively, through immigration and through births. Its proper solution should do much to lessen the intensity of the other social problems. A second, somewhat less baffling, but still extremely difficult, is that of eliminating economic insecurity from the lot of the wageworker. A third, perhaps most evident in the program of trade unionism, is concerned with the rise of group- and class-consciousness, the spirit of group solidarity implicit in so much of the recent social legislation, and the clash between the institutional systems of individualism and of collectivism. These questions, clearly explicit before the war, have been restated in such ways that they cannot be escaped. The position of the hand worker in the industrial order and the nature and extent of the control which shall be accorded the laborer over industry and industrial processes are matters that press for intelligent solution. A great part of the change which is impending will doubtless be accomplished by the voluntary consent of the parties affected, or, at least, through other agencies of control than the government. But, despite the fact that for the moment the prestige of the state as an instrument of direction is eclipsed, and industrial matters can never be adequately dealt with by a highly centralized authority, some increase in state activity in behalf of the individual seems inevitable. This makes imperative the problem of elaborating the new fiscal policy entered upon in the last few years whose object has been the finding of new sources of revenue. Finally, whether ominous or prophetic, we need to note a rising spirit of protest which demands a radical reconstruction of our whole scheme of social life and values.

Such a quest promises no guaranteed solutions of perplexing problems. It will not yield magical formulas for disposing of the enigmas which have perplexed the generations. It will give no assurance that

succeeding ages will have no baffling and bewildering questions to disturb their peaceful repose. It will furnish no open sesame to a social Utopia. On the contrary, quite likely it will show that the perfect society is far in the future. It may even convey the dismal lesson that our limited resources will ever prevent the emancipation of the sons of Adam from bondage to social economy. But the search should yield some positive results. It should put us in position to essay further quests into particular aspects of our industrial system. It should prevent our dissipating our energies in an attempt to realize the unattainable by impossible methods. It should save us from thralldom to social and economic alchemy. Even more important, it should show us that our problems are in process of gradual solution; that they have long-time aspects much more important than the immediate issues which we see; and that vision, as well as emotion, is called for in dealing with them. Here and there, too, we should pick up bits which together we can weave into a partial and tentative program. If our quest makes this beginning, it will have served its purpose.

B. THE NATURE OF ECONOMIC PROBLEMS

3. What an Economic Problem Is Like*

In this day of rapidly changing values, particularly in economic life and thought, it is difficult to determine what an economic problem is, whence it comes, what gives it currency, and whither it is going. To the end of understanding a problem aright, the following list of general characteristics is given. Here they are put down in abstract terms; the materials given in the pages that follow should enable the reader to translate them into the more tangible concepts in which he does his ordinary thinking.

The title commits this volume to the domain of *current* economic problems; but *currency* is not a mere matter of the transitory and ephemeral aspects of economic life, such as are noted in the morning paper. The most recent industrial merger, the latest bit of legislation, the court decision just announced do not mark out its province. The economic questions currently discussed and subject to immediate political action do not fix its bounds. Such things as these, distinct as they seem to be, are mere passing phases of larger and more complex problems. For their beginnings we must look into the far-distant past; their ends it is not yet vouchsafed to us to see. They are in process of gradual solution. The issues which they involve are much more intricate and subtle and much less comprehensible than

*An editorial, 1915, 1919.

their immediate aspects would seem to indicate. In form and content each is closely identified with the stage of industrial development which we have reached. Each involves something of almost every phase of our complicated social life. As separate problems they are merely aspects of a larger reality. If, then, we would understand them aright, we must study them in their historical setting as incidents in the development of society.

Their essential unity makes the word *problems* in the title unfortunate. The term seems to imply the separate treatment of a number of loosely connected questions. The editor disclaims such pretentiousness in his use of it. He has no intention of presenting an aggregation of summaries from many particular fields of economic knowledge. He purports to give no epitome of a dozen different volumes discussing as many different problems. In this book he can neither make use of the methods, nor accomplish the results, of advanced study. A proper understanding of each of these problems is contingent upon a mastery of the workings of some very intricate economic machinery, a careful examination of a large amount of factual material, a painstaking analysis and interpretation of the phenomena of the field of study, and an elaboration of the conclusions drawn from it. To attempt such a task for each of the problems presented here in the space available is impossible; it would result in a mere formal presentation of half-truths. The object of this volume is of another kind; it is introductory. It attempts to present a general view of the whole as a necessary preliminary to a study of particular problems. So far as the latter are separately treated, they are presented as aspects of the larger whole.

A study of *problems* implies a search for *answers*. But, if this volume is to be judged by its ability to supply the earnest student with the *right answer* to each of the questions it discusses, it must indeed be found a dismal failure. The number of problems with which it deals precludes the detailed study which should precede the formation of "final" opinions. Besides, it is extremely doubtful whether the problems of industrial society can be settled dogmatically. As economists we can, and should perhaps, dogmatize about such principles as "the law of diminishing returns." But no economic problem can be resolved by the application of a single simple law; it is part of a situation much too complex and subtle and peculiar for that. Nor can it be made to yield to the magic that lies in a separation of all proposals into the two simple classes of the "good" and the "bad." Nor yet can its solution emerge as the result of a process of calculating resulting utilities and disutilities. Every proposal involves a distribution of costs and utilities between the present and

the future, and between different classes in society. It has not one, but many, economic consequences, good and bad. It is sure to affect in countless ways, for better or for worse, the legal, political, ethical, religious, and social aspects of life. There is no magical instrument of measurement which can unlock such a riddle by promising that a certain definite surplus of good or ill will follow the application of a given proposal. Such values are incommensurable by any known instrument of calculation.

Yet, to make judgments in the face of these complex schemes of incommensurable values is the essence of the problems which we are to discuss. If their solutions are to be advanced, if industrial society is to develop, such judgments must be made. We cannot blink the fact that every proposal advanced involves both the good and the bad, the desirable and the undesirable. We cannot forget that to get some of the good things we want, we must give up other good things; that to escape some of the costs we are unwilling to incur, we must endure others. In short, the "solution" of an economic problem involves *a choice between conflicting and incommensurable values*. The decision which it requires transcends the utmost that can be pent up in any strictly economic terms; it is contingent upon nothing less than our ideal of the socially desirable. But, if our efforts are to be effective, we must aim at the attainable. We must take full account of the limitations imposed upon the "solution" of problems by contemporary activities, prevailing institutions, and the attitudes of the various classes which make up society. In view of the large economic and intellectual environment surrounding them, economic problems are not suddenly to be disposed of; definite and final answers are not to be found for them. Rather they are gradually to be solved; they must have everdeveloping answers.

Upon this theory of *a choice between conflicting and incommensurable values* the readings which follow have been selected. They come from the most miscellaneous sources. They represent all the prominent attitudes, from the most conservative to the most radical, which condition the direction of our development. They are written by men possessed of the widest variety of opinion—economic, political, and sociological. They represent emotionally as well as intellectually (for feelings count as strongly as logic in the practical affairs of our everyday world) the conflicting views and arguments which contemporary society is bringing to bear upon its problems. They contain sound argument, good judgment, truth. They contain, too, much of overstatement, fallacious reasoning, and falsehood. But all are important for, sound or unsound, true or false, they are active elements of the problems we would solve. The reader should not too definitely attempt to separate them into the "true" and the

"false." All thought is conditioned by its fundamental assumptions. Matters of personality, of class, of time, and of place manage to make their way into all intellectual work. Those who regard themselves as most immune are frequently most subject to these disturbing influences. Undoubtedly fundamental differences about economic programs frequently grow out of the possession or non-possession of the "facts." But far oftener they are due to conflicting attitudes which represent endeavors to find social good by generalizing individual interests. Some such study is necessary to a clear appreciation of the many conflicting values involved in the conscious judgments upon which the solution of our problems depend.

In quite another way, the miscellaneous character of these readings should prove valuable. They should help the reader to approach economic questions without personal or class bias; they should lead him to see that his own opinions, despite the authority of their source and their venerable age, are not necessarily the expression of economic verity; and they should induce in him some willingness to hold in abeyance his judgment on economic questions. Vital and valid arguments in support of a proposition in which one thoroughly disbelieves should do much to prevent haste in the formation of his final judgments. Even erroneous arguments have their pedagogical value. Stimulation is by provocation as well as by suggestion; and it is hoped that more than one of the readings which follow will provoke the reader into a more careful formulation of his opinions and a clearer statement of his reasons for possessing them. Above all, it is hoped that in a constructive way they may give the beginnings of a flexible and developing economic program. Its fulness can, and should, come with time, study, and reflection.

It cannot be denied that many of the readings touch upon questions which many think cannot be discussed without "danger to society"; and that others present views which "threaten to subvert our institutions." Fortunately the disposition to exclude "dangerous subjects" and "dangerous views" from academic discussion is much less pronounced than it used to be. There seems to the editor little doubt that the danger is, if not altogether absent, at least unduly magnified. To the extent that it is real, however, an injunction against discussion is not the proper method of minimizing it. The safe course lies rather in getting students to think clearly in terms of economic situations and to recognize in this thinking the many fundamental economic values which usually fail of popular consideration. The erection of signs prohibiting trespass is the best method of enticing college students into forbidden fields of discussion. Much better is it to invite to this forbidden territory under proper guidance. It is hoped that the selections which follow will reveal some

of these values and will do something to induce intelligent thought.

To the end of showing the setting of our current problems and the many conflicting values which they involve, the book has been made to consist of a large number of short readings rather than a small number of long ones. Whatever may be the value of the latter type of manual for advanced work, its usefulness in elementary instruction is largely its power of compelling labor. A small number of readings cannot at all cover the field adequately; they cannot furnish a clear perspective of the subject as a whole; they cannot introduce economic problems in their larger setting. They contain much extraneous matter; they include discussions of subtle points lost on all except advanced students; and they are prone to cause the student to lose the main issues in a world of detail. They commit the fundamental error of attempting to exhibit the particulars before the student has seen the whole. They make it difficult for the average student to discriminate between the accidental and the essential; and too frequently their use leads to a substitution of heroic clerical work for intellectual exertion. In the readings here presented an attempt has been made to eliminate the nonessential and the confusing.

This induced simplicity is not intended to convey the idea that the problems involved are simple, and that social economics is a subject which can easily be "mastered." On the contrary, few teachers will be tempted to charge this volume with an elucidation of the merely obvious. On the contrary, the very difficulty of the subjects treated makes it necessary that the many and conflicting arguments be presented as simply and definitely as possible. One of the functions of the book is to show the difficulty and complexity of the problems. Perhaps nothing is doing more to complicate the solution of our problems at the present time and to prevent the elaboration of a definite program than the belief of so many people that these same problems are simple and easily understood, and that "evils" are responsive to simple prescriptions. To convey the idea of simplicity and intelligibility, when these are not of the subject discussed, is to fail on the very threshold of economic study.

In an introductory course, the primary desideratum is not the acquisition by the student of facts and formulas, which he can hand back at examination, having no further use for them. It is rather to induce on his part a developing appreciation of the situation as a whole and of the relation of institutions and problems to each other and to it. It is more desirable that he come to understand the subject than that he amass formal knowledge about it. It is preferable that he learn to think intelligently in terms of a complex industrial situation than that he acquire a vast collection of "principles" that formally explain its working. The readings are intended to supply

not factual material upon which the student can be quizzed, but rather matter that will raise questions and provoke thought. They are intended to prepare for recitation by giving the instructor and the students something to discuss together. The function of the instructor is to direct and guide discussion, and to see that the thought of the students is intelligent and intelligible.

It is no part of the function of this volume, therefore, to lighten the instructor's labors. Ease and a shifting of responsibility can better be found in the formal lecture or in quizzing from a text. The editor believes quite firmly that the value of any course in economics is pretty much what the instructor makes it. He is the factor of vital importance. If the course is to be successful in aiding the student properly to begin the long-to-be-continued process of getting a fair conception of the economic world and of formulating an economic program, it must be the instructor's *own* course. He alone knows the factors involved in his own classroom problem. He must determine its content, fix its arrangement, and shape the tools which he uses to its peculiar need. Books, problems, and other pedagogical devices are at best but instruments. If a book of this kind has any advantage over a formal text, it is in the freedom which it allows to instructor and student, both in making the most of the recitation and in the ordering of the course. Wherever it is used, unity must come, not from the book itself, but from the teacher's own plan, and from his skillful use of the complementary tools he employs. The function of this volume is to give not leisure, but intellectual liberty.

C. THE NATURE OF PROGRESS⁴

4. What Is Progress?

BY JAMES BRYCE

When we say that man has advanced, or is advancing, of what lines of advance are we thinking? The lines of movement are really as numerous as are the aspects of man's nature and the activities which he puts forth. Taking his physical structure, is mankind on the whole becoming stronger, healthier, less injured by habits which depress nervous and muscular forces, and are the better stocks of men increasing faster than the inferior stocks? Considered as an acquisitive being, has man more of the things that make for comfort, more food and clothing, better dwellings, more leisure? Intellectually regarded, has he a higher intelligence, more knowledge and opportunities for acquiring knowledge, more creative capacity, more perception of beauty and susceptibility to aesthetic pleasures? Considered in his

⁴Adapted from an article in the *Atlantic Monthly*, C, 147. Copyright, 1907.

social relations, has he more personal freedom, is he less exposed to political oppression, has he fuller security for life and property, are there more or less order and concord within each community, more or less peace between nations? Lastly, is man improving as a moral being? Is there more virtue in the world, more sense of justice, more sympathy, more kindness, more of a disposition to regard the feelings and interests of others and to deal gently with the weak? In each and all of these departments there may be progress, but not necessarily the same rate of progress, and we can perfectly well imagine a progress in some points only, accompanied by a stagnation or even a decline in other points.

When we talk of the progress of the world, do we mean an advance in all these respects, or only in some, and if so in which of them? If in all of them, which are the most typical and the most significant? Suppose there has been an advance in some, and in others stagnation or retrogression, how shall we determine which are the most important, the most fraught with promise or discouragement? An examination of the language of popular writers indicates that the current conception has been seldom analyzed. Such writers have seemed to have assumed that an improvement in some aspects of human life means an improvement in all, perhaps an improvement to something like the same extent. Another question suggests itself. Is the so-called law of progress a constant one? Suppose its action in the past to have been proved, can we count upon its continuing in the future, or may the causes to which its action has been due some time or other come to an end? I pass over other points that might be raised. It is enough to have shown in how vague a sense the current term has been used.

5. Evolution or Progress?

BY L. T. HOBHOUSE

I use the term "evolution" in regard to human society, and also the term "progress." This should imply that there is some difference between them. By evolution I mean any sort of growth; by social progress, the growth of social life in respect to those qualities to which human beings attach or can rationally attach value. Social progress, then, is only one among many possibilities of social evolution. At least it is not to be assumed that every and any form of social evolution is also a form or stage in social progress. For example, the caste system is a product of social evolution, and the more rigid and narrow the caste, the more complex the hierarchy, the more completely has the caste system evolved. But most of us would

*Adapted from *Social Evolution and Political Theory*, pp. 7-25. Copyright by the Columbia University Press, 1911.

question very strongly whether it could be considered in any sense a phase of social progress. So again there is at the present day a vigorous evolution of cartels, monopolies, rings and trusts; there is an evolution of imperialism, of militarism, of socialism, of a hundred tendencies as to the good or evil of which people differ.

The fact that a thing is evolving is no proof that it is good; the fact that society has evolved is no proof that it has progressed. The point is important because under the influence of biological conceptions the two ideas are often confused, and the fact that human beings have lived under certain conditions is taken as proof of the value of those conditions, or perhaps as proving the futility of ethical ideas which run counter to evolutionary processes. Thus in a recent article I find a contemptuous reference to "the childlike desire to make things fair," which is "so clearly contrary to the order of the universe which progresses by natural selection." In this brief remark you will observe two immense assumptions, and one stark contradiction. The first assumption is that the universe progresses—not humanity, observe, nor the mass of organic beings, nor even the earth, but the universe. The second is that it progresses by natural selection, a hypothesis which has not yet adequately explained the bare fact of the variation of organic forms on the surface of the earth. The contradiction is that progress is incompatible with fairness, the basic element in all judgments of value, so that we are called upon to recognize as valuable that by which our fundamental notions of value are set at naught.

By studying certain sides of organic process people arrive at a particular hypothesis of the nature of the process. They erect this hypothesis into an universal and necessary law, and straightway call upon everyone else to acknowledge the law and conform to it in action. They do not see that they have passed from one sense of law to another, that they have confused a generalization with a command, and a statement of facts with a principle of action. They accordingly miss the starting-point from which a distinct conception of progress and its relation to human effort becomes possible. But for any useful theory of the bearing of evolution on social effort this conception is vital. We can get no light upon the subject unless we begin with the clear perception that the object of social effort is the realization of ends to which human beings can rationally attach value, that is to say, the realization of ethical ends; and this being understood, we may suitably use the term progress of any steps leading towards such realization.

Our conclusion so far is that the nature of social progress cannot be determined by barely examining the actual conditions of social evolution. Evolution and progress are not the same thing. They

may be opposed. They might even be so fundamentally opposed that progress would be impossible.

Because of the influence of biological notions on social and economic thought, one phase of the Darwinian theory must be noted. The main effect of his work in the world of science was to generate the conception of the progress of organic forms by means of a continuous struggle for existence wherein those best fitted by natural endowment to cope with the surroundings would tend to survive. In our field, after Darwin, it began to be held that man, in spite of his philosophy, was still an animal, still subject to the same laws of reproduction and variation, still modifiable in the same manner by the indirect selections of the individuals best fitted to their environment. The biological social philosopher had not to trouble himself about what was best; nor, like the social investigator, to remain in doubt as to the broadest principles regulating the life of society. On both these questions his doubts were already solved by what he had learned in biology itself. The best was that which survived, and the persistent elimination of the unfit was the one method generally necessary to secure the survival of the best. Armed with this generalization he found himself able to view the world at large with much complacency.

To him life was constantly and necessarily growing better. In every species the least fit were always being destroyed and the standard of the survivors proportionately raised. No doubt there remained in every society many features which at first sight seemed objectionable. But here again the evolutionist was in the happy position of being able to verify the existence of a soul of goodness in things evil. Was there acute industrial competition? It was the process by which the fittest came to the top. Were the losers in the struggle left to welter in dire poverty? They would the sooner die out. Were housing conditions a disgrace to civilization? They were the natural environment of an unfit class, and the means whereby such a class prepared the way for its own extinction. Was infant mortality excessive? It weeded out the sickly and the weaklings. Was there pestilence or famine? So many more of the unfit would perish. Did tuberculosis claim a heavy toll? The tubercular germs are great selectors skilled at probing the weak spots of living tissue. Were there wars and rumors of wars? War alone would give to the conquering race its due, the inheritance of the earth. In a word the only blot that the evolutionist could see upon the picture was the "maudlin sentiment" which seeks to hold out a hand to those who are down. The one sinner against progress is the man who tries to save the lamb from the wolf. Could we abolish this unscientific individual, the prospects of the world would be unclouded.

Yet, before we apply biological conceptions to social affairs, we generally suppose that the highest ethics is that which expresses the completest mutual sympathy and the most highly evolved society that in which the efforts of its members are most completely coördinated to common ends, in which discord is most fully subdued to harmony. Accordingly we are driven to one of two alternatives. Either our valuations are completely false, our notions of higher or lower unmeaning, or progress does not depend upon the naked struggle for existence. The biologist would cheerfully accept the first alternative. As we have already seen, he is disposed to tell us that we vainly seek to distort truth by importing our ethical standards. He is quite ready to insist that we must subordinate our judgments of value to the survival test. We must judge good that which succeeds. Unfortunately for him at that stage his whole theory becomes a barren tautology. Progress now in his view results from the survival of the fittest, because progress is the process wherein the fittest survive. Again it is always the fittest who survive, because the fact of their survival proves their fitness.

6. The Criteria of Progress⁶

BY JAMES BRYCE

In our study of the supposed forward movement of mankind, let us begin with two comparatively easy lines of inquiry: the physical characteristics of the human species, and the conditions under which the species has to live; and let us see what conclusions can be reached by examining these.

Additions to the number of the human race are popularly treated as if they were an undoubted benefit. We see every nation and every community regarding its own increase as something to be proud of. But is the increase of the race any gain to the race? The population of Europe is three or four times, and that of North America twenty times, as large as it was two centuries ago. This proves that there is much more food available for the support of life, much more production of all sorts of commodities, and in particular an immense increase in the area of land used for producing food, with an improvement in the methods of extracting food from the land. So the growth of a city like Boston or Chicago proves that there has been an immense increase in industry. Men work harder, or at any rate more efficiently, and have far better appliances for production at their command.

Whether they live happier lives is another matter. It used to be said that he who made two ears of corn grow where only one ear

⁶Adapted from an article in the *Atlantic Monthly*, C, 147-56. Copyright, 1907.

had grown before was a benefactor to the race. Is that necessarily so? The number of men who can live off the soil is larger, but the men need not be better off. If there is more food there are also more mouths. Their lives may be just as hard, their enjoyments just as limited. Some parts of the earth are already too crowded for comfort. The notion that population is per se a benefit and a mark of progress seems to be largely a survival from a time when each tribe or city needed all the arms it could maintain, to wield sword and spear against its enemies. "As arrows in the hands of a giant, even so are young children," says the Psalmist; and when men are needed to fight against the Hittites, this is a natural reflection. It may also be due partly to an unthinking association between growth and prosperity.

Let us pass to quality. The most remarkable fact of the last few centuries has been the relatively more rapid growth of those whom we call the more advanced races, Teutonic, Celtic, and Slavonic. Nineteen centuries ago there were probably less than ten million people belonging to these three races. There are today probably over three hundred and fifty million, while the so-called backward races have increased more slowly and are now everywhere under the control of the more advanced races. In duration of life, too, there is unquestionably an improvement. Lunacy, however, is increasing. This seems to imply that there are factors in modern life which tend to breed disorders in the brain. In this connection a still more serious question arises.

The law of differentiation and improvement by means of natural selection and the survival of the fittest may reasonably be thought to have done its work during the earlier period of the history of mankind. The races which have survived and come to dominate the earth have been the stronger races; and, while strife lasted, there has always been a tendency for physical strength and intelligence to go on increasing. The upper classes in every community were always stronger and handsomer than the classes at the bottom of the scale. The birth-rate was probably higher among the aristocrats, and the chance of the survival of infants better. But in modern society the case is quite otherwise. The richer and more educated classes marry later and as a rule have smaller families than the poorer class, whose physique is generally weaker and whose intelligence is generally on a somewhat lower level. The result is that a class in which physical strength and a cultivated intelligence are hereditary increases more slowly than do classes inferior in these qualities. Fortunately, the lines of class distinction are much less sharply drawn than they were some centuries ago. The upper class is always being recruited by persons of energy and intellect from the poorer classes. Still we have

here a new cause which may tend to depress the average level of human capacity.

The improvement, so far as attained, in the physical quality of mankind is largely due to such changes in its environment as the greater abundance of food and clothing, the better conditions of housing, the diffusion of property among all classes in the community. Along these lines the improvement has been extraordinary. The luxury of the rich, the comfort of the middle class, the comparative immunity of the poorer classes from famine and pestilence, have increased within the last two centuries more than they had during many preceding centuries.

Most remarkable of all has been the cause of these improvements, namely, the increase in our knowledge of natural laws and the power over natural forces which has been thereby acquired. Man has now, by comprehending Nature, become her master. These are the things which are commonly in our mind when we talk of progress. It is the wonderful gains made in these things which are visible and tangible and which affect our daily life at every turn that have struck the popular mind, and have seemed to mark, not only a long onward step, but the certainty of further advance. Material progress has seemed to sweep everything else along with it.

Whether this be so is the very question we have to consider. Does our increased knowledge and command of nature, do all those benefits and comforts which that mastery has secured, so greatly facilitate intellectual and moral progress that we may safely assume that there will be an increase in intelligence, in virtue, and in all that is covered by the word "happiness"? It seems hard not to believe it.

Certainly we see under these new conditions less anxiety, less occupation with the hard necessities of finding food and clothing. Work itself is less laborious, because more largely done by machinery. There is more leisure that can be used for the acquisition of knowledge and for setting thought free to play upon subjects other than practical. The opportunities for obtaining knowledge have been extended and cheapened. Transportation has become cheap, easy, and swift, enriching and refreshing the mind by foreign travel. Works of art are produced more abundantly. The mere increase of population and purchasing power has a favoring influence upon intellect, because there is more demand for the products of intellect and more persons employed in their production. Thus it is clear that material progress provided at least unprecedented facilities and opportunities for intellectual progress, and the quantity of intellectual activity has enormously increased.

Quality, however, must also be considered. Plato hinted that the invention of writing had weakened the powers of the human mind.

We may well doubt whether the intellectual excellence of the age can be measured by the number of speeches or the amount of printed matter it produces, and whether the incessant reading of newspapers and magazines tends on the whole to strengthen the habit of thinking.

Material progress has affected the forms which intellectual activity takes and the lines of inquiry which it follows. But there is no evidence that it has done more to strengthen than to depress the intensity and originality and creative energy of intellect itself; nor have these qualities shown themselves more abundant as the population of the earth has increased. As for accomplishment intellectually, may there not be a limit to this kind of advance, and may we not be approaching that limit?

But, if it has proved difficult to say how far material progress and the diffusion and extension of knowledge have stimulated and are likely to stimulate intellectual progress, still harder is it to estimate their influence on the standard of moral excellence. What is moral progress? The ancient philosophers would have described its aim as being harmony with nature, that is, with those tendencies in man which lead him to his highest good by raising him above sense temptations. Augustine or Thomas Aquinas would have placed it in conformity to God's will to which all thoughts and passions should be attuned. Neither of these ideals had any relation to material progress, and saints would probably have thought such progress hurtful rather than helpful to the soul.

To estimate the degree in which some sins or vices have declined and others have developed, the extent to which some virtues have grown more common and others more rare; to calculate the respective ethical values of the qualities in which there has been an improvement and a decline; and to strike a general balance after appraising the worth of all these assets—this is a task on which few would care to enter. No analysis and no synthesis could make much of data so uncertain in quantity and so disputable in quality. Different virtues rise and fall, bloom and wither, as they inspire joy or command admiration.

It may, however, be suggested that there is one thing whose relation to material progress must somehow be the ultimate test of every kind of advance. It is happiness. But what is happiness? Is it pleasure? Are pleasures to be measured by a qualitative as well as a quantitative analysis? Shall we measure them by the intensity by which they are felt or by the fineness and elevation of the feeling to which they appeal? Is the satisfaction which Pericles felt in watching the performance of a drama of Sophocles greater or less than the satisfaction which one of his slaves felt in draining a jar of wine?

The comparison of our own age with preceding ages does not solve the problem. Most of us probably rejoice that we did not live in the fifth or even the seventeenth century. But can we be sure that the individual man in those centuries had a worse time than the average man now has? He was in many points less sensitive to suffering than we are, and he may have enjoyed some things more intensely. True, the fear of torment brooded like a black cloud over the minds of past generations. Yet we know that many persons look back to the Ages of Faith as ages when man's mind was far more full of peace and hope than at present.

Happiness is largely a matter of temperament, and temperament largely depends upon physiological conditions, and the physiological conditions of life are much affected by economic and social conditions. How can we then determine whether the excitement and variety of modern life make for happiness?

We may seem to be better equipped for prophecy than we were, because we have come to know all the surface of the earth, and its resources, and the races that dwell thereon, and their respective gifts and capacities. But how these elements will combine and work together is a problem apparently as inscrutable as ever. The bark that carries man and his fortunes traverses an ocean where the winds are variable and the currents unknown.

D. THE CONTROL OF ECONOMIC ACTIVITY

7. The Agencies of Social Control¹

BY ELIZABETH HUGHES

The prominence attached to government interference with industrial enterprise has caused the other ways in which society orders, directs, and defines the efforts of individuals to be overlooked. Social control, it must be remembered, has many channels through which to spread and need confine itself at no time to the single course of overt legislation.

Group will operates most persistently and potently through the great unwritten rules and restrictions imposed by custom, which through their very familiarity often escape observation. A glance at Eastern, then at Western, civilization may serve to show by contrast how far-reaching and permeating is custom's influence upon industrial life. In eastern countries custom decrees that trades shall be hereditary; that the tools and methods used by ancestors shall continue to be used by present-day workers; and that human labor shall not be supplanted in any marked degree by machine effort, but

¹1915.

only supplemented somewhat by it. Western civilization, on the contrary, adopts as its fetish the new rather than the old, favors development rather than stagnation—in a word, tends to make change itself customary and normal. In production machinery is extensively used, and a child may follow quite another trade than his father's, or, if he adopts his parent's calling, need not execute it in precisely the same manner. But though Western society is not stereotyped to the degree to which the social groups of the Orient are, it nevertheless shows more than traces of conservatism. Mill-owners, for example, through custom, cling to child labor; merchants determine selling prices by adding customary percentages of profit, differing greatly in different trades; the standardization of woman's dress makes little headway against the custom of frequent and radical changes in style; spring millinery is marketed in January in spite of untoward weather; extra clerks are hired at Christmas to meet the demands of those whom no society for the suppression of useless giving can deter from eleventh-hour activity in buying. It is custom which leads people to continue patronizing the dealer and the brand of goods they have formerly found satisfactory—or unsatisfactory—instead of accepting the "just-as-good" substitutes. Without the power of custom "good will" could not be capitalized as an asset, and trade-marks would not be desirable. Custom, then, does actively and potently aid in regulating industry.

The various institutions of society epitomize forms of social control. Schools with their industrial departments in a measure supplant the older system of apprenticeship and by their vocational guidance bureaus attempt to place children in fitting occupations. The press, the pulpit, and the platform are agents for the dissemination of ideas; and, by the impression of group ideas and standards upon individuals, foster the establishment of social solidarity. Through these a society's codes of ethics find expression: exploitation of workmen, for example, is frowned upon; an opportunity for everyone is coming to be regarded as a matter of right; and it is insisted that competition shall be free and not "cut-throat."

In addition to the general ethical codes of society are the particular codes of the different professions. For instance the code of the medical profession exercises a restraining and compelling influence over many activities of its members. It is responsible alike for the custom of non-advertisement of medical services, a large amount of charity work, and a system of class prices that frequently becomes "charging what the traffic will bear." The medical man's code rules out many of the things which law permits, and stands in sharp contrast to the principles of the business man who still holds to the "eye-for-an-eye" doctrine and looks upon shrewdness and sagacity

as cardinal virtues, honesty as a matter of policy, and good will as desirable private capital. He is, however, unlike the medical man, constrained to charge rich and poor a single price for his wares, thus more adequately protecting "the consumer's surplus" of the well-to-do class than it is protected from the medical fraternity. On the contrary there is no gratuitous gift to the ne'er-do-well.

Lawyers, ministers, and teachers—each in turn have their codes. The tyranny of social custom shows itself especially in the standard of living which each of the professional classes is expected to maintain. Salaries and fees must be high enough in the aggregate to make a given standard attainable with circumspect expenditure.

A man in choosing his profession adopts along with his choice an obligation to obey the ethical code society, and the particular group he has joined expects him to follow. If medicine, he must live up to the ethics of the medical profession; if law, he must obey its behests under penalty of debarment; if certain particular lines of business, he must rise or stoop to the plane of competition maintained in these lines, since nonconformity automatically excludes through business disaster those who do not conform.

He may subject himself still further to voluntary compulsion by joining a club or an association; for clubs and associations, of whatever sort they be, have in common the exercise of general control over members. The trade-unionist, for example, may not "scab" even if he is unemployed because of a strike he did not vote for; nor may he speed up even though he can easily increase his earnings through piece-work; nor work overtime without extra pay; nor buy anything without a union label; nor print anything except on a union press. Just so the employer who has allied himself with an employers' association must uphold in relation to his laborers those principles and stipulations upon which the association has agreed. He must conduct his business less in accord with his individual will and more as the group has deemed best. Again there is the Consumers' League, whose members pledge themselves to patronize only those manufacturers who measure up to a standard set by the League and attain thereby unto an honored place on its white list and win the right to use the Consumers' label.

Enough has been said to show that government regulation is only one form of social control. In fact, it would seem as if, in a democratic society, legislation is only resorted to when there is conflict in control extorted by different groups within society at large. The more satisfactory the control by the smaller group, the less the economic or social oppression of one by another, the less the interference of society at large through law and governmental control.

8. The Family as an Agency of Control⁸

The importance of social control lies in its performance of two functions. The first is the organization of industrial society; the second, the direction of social activities to ends that constitute progress. These results require for their accomplishment the use of a variety of institutions. So prevalent has become the habit of expressing this problem in terms of the individual and the state that we are prone to overlook the less obvious, but extremely important, agencies of control. The influences of some of these, both in holding society together and in directing its development, are far more extensive and their sanctions far more compelling than even state authority. In fact such is their power that one of the principal functions of the state has come to be forcing upon a small minority modes of action which have been developed through other agencies and which have already come to exercise a compelling influence over the majority. A single example, that of the family, will serve to show the nature and efficiency of these usually neglected agencies.

The industrial system is in general manned by adults; so we are too prone to overlook the industrial importance of children. The latter constitute an incipient industrial force; to them the management and operation of the industrial system will in course of time be intrusted. How this task is performed depends to a large extent upon influences brought to bear upon them while they are still unincumbered with active industrial duties. The system demands personal efficiency; it must have workers who are capable of sustained effort. This is an acquired characteristic. The savage does not possess it; improper home influences may prevent the civilized child from acquiring it. Its acquisition is very closely associated with habits of home discipline. The common ethical standards to be applied to business dealings are also quite dependent upon the same influences. The home develops individual norms; these grow into class and social norms, which exercise over the individual vital control of actions through all-compelling imperatives and inhibitions.

Industrial efficiency likewise depends upon the proper distribution of workers among the different occupations. The decisions affecting this distribution are not always made by the heads of families, but all of them are surrounded by many and varied family influences. The preparation for entering the chosen occupations is usually made under the same influences. Since the organization of society as well as its development is contingent upon a proper distribution into occupational groups, the importance of this cannot very well be underestimated. The freedom which an individual possesses to choose and change his own occupation usually does not

⁸An editorial (1915).

come to him until a time when an exercise of this freedom would be attended by losses too great to permit it.

Both the immediate welfare and the progress of society vitally depend upon the proportions between the three factors of production—land, labor, and capital. The family, more than any other institution, controls the increase in the two factors subject to increase, capital and labor. The origin of capital, as we know, is in savings. Savings are what is left of the family income when the family expenses have been met. Since the expenditure depends very largely upon family habits, the dependence of capital upon this institution is clearly seen. Family influences, too, are quite potent in inculcating habits of thrift or prodigality, thus affecting capital accumulation in the next generation.

The supply of labor is controlled through a control of the number of people. A new state, possessed of undeveloped resources, can partially control its numbers, through regulation of immigration. But such a state has least need for controlling its numbers. As the country develops, as resources are utilized, and as immigration falls off, a control of numbers becomes more and more a control of the birth-rate. No state has thus far succeeded directly in controlling the number of births. Even indirectly its influence has not been very potent. This matter has been in the past, and will be in the future very largely, left to the family. Yet upon this question of numbers rest very vital economic considerations, including the questions of wages, standards of living, capacity for material development, etc. In brief, the forces influencing the sizes of the productive funds out of which wealth is to be increased are very largely familial.

It is often said that wants are the mainspring of economic activity; that it is the possession of wants which is responsible for our industrial system. If this is so we must remember that the wants which lead to industrial endeavor, particularly to the fullest utilization of personal productive capacities, are familial, rather than personal, wants. The beginning and end of the economic process lie in the family. It is, both directly and indirectly, one of the most potent factors in organizing society and in determining the direction of its development.

9. The State as an Institution of Control⁹

BY EDWIN CANNAN

The existence of the state and the order enforced by it makes it possible for property to play a part in organization. We might

⁹Adapted from *Wealth; A Brief Explanation of the Causes of Economic Welfare*, pp. 89-95. Copyright by P. S. King & Co., 1914.

conceive a state of things where co-operation carried on under the influence of property might exist without any organized authority of government. But such a state of things has never been realized, nor is likely to be. So the state has been necessary in the past and is likely to continue to be so in the immediate future. Further; even in a society of perfectly just men it would be desirable to have some common authority to make changes when necessary. Otherwise progress would be exceedingly slow, since it would have to be imperceptible. If fast enough to be perceptible, it would seem to violate custom and would, therefore, be tabooed, in the absence of machinery for discussing reasons and passing judgment on them.

In the eighteenth century there grew up a school of thinkers who said to the governments of the time, "*laissez faire*" or "let alone." The more philosophical among them were influenced by the cult of nature prevalent at the time, thinking that certain institutions were natural and therefore good, while others were artificial and bad. They wanted the institutions which they thought natural let alone and the others abolished. The practical men wanted certain institutions abolished which they regarded as harmful, and did not trouble themselves to think of the others. The natural institutions of the philosophers are now seen to be nothing but slight modifications of the institutions of their own time. To the practical man, the precept "*laissez faire*" never meant "leave everything alone," nor even "leave all natural things alone," but simply, "leave alone certain things which I think ought to be left alone." The practical men got their way to a considerable extent, and therefore it has become the fashion to speak of the "*laissez-faire* period." But there never was and never can be a state which practices this policy. The very establishment of the state negatives a policy of complete "let alone."

In primitive times the demand upon the authority which represents the state is constantly for the enforcement of "good old customs." When the state complies, it is not letting alone but taking an active part in the enforcement of these customs, which might otherwise fall into disuse owing to violation by interested parties. Moreover, the enforcement of these customs, coupled with neglect to enforce other customs, involves a discrimination favorable to progress. Consequently there was a large amount of "state interference" even in periods when the state seemed to do nothing except to reinforce the people's respect for custom.

The general enforcement of law and order and the facilitation of necessary and desirable changes in that law and order, though perhaps the most vital, is by no means the only important function of the state in economic organization. Separate property in land has never covered the face of any considerable country. A network of narrow

strips forming the means of communication is always found outside the limits of private property. Without this reservation from private property any considerable amount of communication would be impossible. Hence provision of the means of communication has always been in the hands of the state. Where private parties build railways they are granted by the state the right of eminent domain, or the power to buy the land they need to get the required consecutive strip, even if the owners do not wish to sell. They have to pay only fair "compensation."

In modern times a number of other things have grown up which resemble the means of communication in being spread over large areas in thin lines. Water, drainage, gas and electric lighting, telegraphic and telephonic communications, require a laying of a network of wires all over the face of the world. It is constantly necessary to acquire private property for a part of this work. These things are very similar to roads, railways, and canals in many of their characteristics, and are therefore dealt with in much the same way. In helping to provide these engineering works required for the progress of invention and the thicker population in modern times, the state may be said to be arranging for a necessary supplement to the organization based on separate property.

Some kind of organization covering the whole industrial territory and armed with certain disciplinary powers is obviously necessary, and is supplied by the state; badly as it works in its earlier forms, it is never worse than the chaos which preceded it, and as time goes on it is gradually improved.

E. THE THEORY OF LAISSEZ FAIRE

10. The Fundamental Law of Nature¹⁰

BY WILLIAM BLACKSTONE

As, therefore, the Creator is a being, not only of infinite power and wisdom, but also of infinite goodness, he has been pleased so to contrive the constitution and frame of humanity, that we should want no other prompter to enquire after and pursue the rule of right, but only our self love, that universal principle of action. For he has so intimately connected, so inseparably interwoven the laws of external justice with the happiness of each individual that the latter cannot be attained but by observing the former, and if the former be punctually obeyed, it cannot but induce the latter. In consequence of which mutual connection of justice and human felicity, he has not perplexed the law of nature with a multitude of abstracted rules and

¹⁰*Commentaries on the Laws of England* (1765) ; Book 1, sec. 2.

precepts, referring merely to the fitness or unfitness of things, as some have vainly surmised, but has graciously reduced the rule of obedience to this one paternal precept, "that man should pursue his own true and substantial happiness." This is the foundation of what we call ethics or natural law; for the several articles into which it is branched in our system amount to no more than demonstrating that this or that action tends to man's real happiness, and therefore very justly concluding that the performance of it is a part of the law of nature; or, on the other hand, that this or that action is destructive to man's real happiness, and therefore that the law of nature forbids it.

11. A Diatribe against Human Institutions¹¹

BY J. J. ROUSSEAU

All things are good as their author made them, but everything degenerates in the hands of man. By man our native soil is forced to nourish plants brought from foreign regions, and one tree is made to bear the fruit of another. Man brings about a general confusion of elements, climates, and seasons; he mutilates his dogs, his horses, and his slaves; he seems to delight only in monsters and deformity. He is not content with anything as Nature left it.

As things now are, a man left to himself from his birth would, in his association with others, prove the most preposterous creature possible. The prejudices, authority, necessity, example, and, in short, the vicious social institutions in which we find ourselves submerged, would stifle everything natural in him, and yet give him nothing in return. He would be like a shrub which has sprung up by accident in the middle of the highway, to perish by being thrust this way and that and trampled upon by passers-by. All our wisdom consists in servile prejudices; all our customs are but suggestions, anxiety, and constraint. Civilized man is born, lives, dies in a state of slavery. At his birth he is sewed in swaddling clothes; at his death he is nailed in a coffin; as long as he preserves the human form he is fettered by our institutions.

12. A Plea Against Governmental Restraints¹²

BY ADAM SMITH

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society,

¹¹*Emile ou l'éducation* (1762), liv. 1.

¹²Adapted from *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776), Book IV, chap. ii.

which he has in view. But the study of his own advantage, naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.

The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavor to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or, rather, is precisely the same thing with that exchangeable value. As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affection, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

13. A General Condemnation of Government¹³

BY WILLIAM GODWIN

Society is an ideal existence and not on its own account entitled to the smallest regard. The wealth, prosperity, and glory of the whole are unintelligible chimeras. Set no value on anything, but in proportion as you are convinced of its tendency to make individual men happy and virtuous. Benefit, by every practical mode, man wherever he exists; but be not deceived by the specious idea of affording services to a body of men, for which no individual man is the better. Individuals cannot have too frequent or unlimited intercourse with each other; but societies of men have no interests to explain and adjust, except so far as error and violence may render explanation necessary. This consideration annihilates at once the principal objects of that mysterious and crooked policy which has hitherto occupied the attention of governments.

Government can have but two legitimate purposes, the suppression of injustice against individuals within the community and the common defense against external invasion.

Legislation, that is, the authoritative enunciation of abstract or general propositions, is a function of equivocal nature and will never be exercised in a pure state of society, or a state approaching to purity, but with great caution and unwillingness. It is the most absolute of the functions of government, and government is itself a remedy that invariably brings its own evils along with it. Legislation, as it has been usually understood, is not an affair of human competence. Reason is the only legislator, and her decrees are irrevocable and uniform. The functions of society extend, not to the making, but the interpreting of law; it cannot decree, it can only declare that which the nature of things has already decreed and the propriety of which irresistibly flows from the circumstances of the case.

The true reason why the mass of mankind has so often been made the dupe of knaves has been the mysterious and complicated nature of the social system. Once annihilate the quackery of government, and the most home-bred understanding will be prepared to scorn the shallow artifices of the state juggler that would mislead him. With what delight must every well informed friend of mankind look forward to the auspicious period, the dissolution of political government, of that brute engine, which has been the only perennial cause of the vices of mankind, and which has mischiefs of various forms incorporated with substance, and not otherwise to be removed than by its utter annihilation.

¹³Adapted from *An Enquiry Concerning Political Justice and Its Influence on General Virtue and Happiness* (1793), pp. 514, 561, 564, 555, 168, 575, 579.

14. The Identity of Individual and Social Good¹⁴

BY PIERCY RAVENSTONE

Nature has implanted in every man's breast an instinct which teaches him intuitively to pursue his own happiness; and, by connecting the welfare of every part of society with that of the whole, she has wisely ordained that he shall not be able to realize his own wishes without contributing to the happiness of others.

Every man may thus safely be intrusted with the care of working out his own prosperity. It is not necessary for governments, it is therefore no part of their duty to teach to individuals what will most conduce to the success of their pursuits; they are ill-calculated for such a superintendence. All care of this sort is on their part wholly impertinent. Their functions are of quite a different nature; to correct the vicious attachment to their own interests which too frequently induces men to seek their own apparent good by the injury of others, which would disorder the whole scheme of society, to bring about what they mistakenly consider their own happiness. To restrain, not to direct, is the true function of the government; it is the only one it is called on to perform, it is the only one it can safely execute. It never goes out of its province without doing mischief. The mischief is not always apparent, for the constitution of the patient is often sufficiently strong to resist the deleterious effects of the quackery. But it is not safe to try experiments which can do no good, merely because the strength of the patient may prevent them from being injurious.

The spirit of interference has never manifested itself so strongly as of late years. It constitutes the very essence of modern political economy. Everything is to be done by the state; nothing is to be left to the discretion of individuals. It is proposed to transfer men into a species of political nursery-ground, where the quality of plants is to be regulated with mathematical exactness, to be fitted to the capacity of the soil; where every exuberance in their shoots is to be immediately pruned away, and their branches confined within the bounds of the supporting espalier.

15. A Protest against Useless Restrictions¹⁵

BY JEREMY BENTHAM

Ashurst.—The law of this country only lays such restraints on the actions of individuals as are necessary for the safety and good order of the community at large.

¹⁴From *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy* (1821), pp. 2-3.

¹⁵From *Truth against Ashurst*, in *Works of Jeremy Bentham* (1823), V, 234.

Truth.—I sow corn; partridges eat it, and if I attempt to defend it against the partridges, I am fined or sent to gaol: all this, for fear a great man, who is above sowing corn, should be in want of partridges.

The trade I was born to is overstocked; hands are wanting in another. If I offer to work at that other, I may be sent to gaol for it. Why? Because I have not been working at it as an apprentice for seven years. What's the consequence? That, as there is no work for men in my original trade, I must either come upon the parish or starve.

There is no employment for me in my own parish: there is abundance in the next. Yet if I offer to go there, I am driven away. Why? Because I might become unable to work one of these days, and so I must not work while I am able. I am thrown upon one parish now, for fear I should fall upon another, forty or fifty years hence. At this rate how is work ever to be got done? If a man is not poor, he won't work: and if he is poor, the law won't let him. How then is it that so much is done as is done? As pockets are picked—by stealth, and because the law is so wicked that it is only here and there that a man can be found wicked enough to think of executing it.

Pray, Mr. Justice, how is the community you speak of the better for any of these restraints? and where is the necessity of them? and how is safety strengthened or good order benefited by them?

But these are only three out of this thousand.

16. Opportunity

BY JOHN J. INGALLS

Master of human destines am I!
 Fame, love, and fortune on my footsteps wait;
 Cities and fields I walk: I penetrate
 Deserts and seas remote, and passing by
 Hovel and mart and palace, soon or late
 I knock unbidden once at every gate!
 If sleeping wake; if feasting rise before
 I turn away. It is the hour of fate
 And those who follow me reach every state
 Mortals desire, and conquer every foe
 Save death; but those who doubt or hesitate
 Condemned to failure, penury, and woe
 Seek me in vain and uselessly implore.
 I answer not, and I return no more!

F. THE INTERPRETATION OF LAISSEZ FAIRE

17. The Philosophy of Individualism¹⁶

BY ALBERT V. DICEY

Individualism as regards legislation is popularly connected with the name and the principles of Bentham. The ideas which underlie the Benthamite or individualistic scheme of reform may conveniently be summarized under three leading principles and two corollaries.

i. English law, as it existed at the end of the eighteenth century, had developed almost haphazard, as the result of customs or modes of thought which had prevailed at different periods. The laws had for the most part never been enacted. In order to amend the fabric of the law we must, so Bentham insisted, lay down a plan grounded on fixed principles. Legislation, in short, he proclaimed, is a science based on the characteristics of human nature, and the art of lawmaking, if it is to be successful, must be the application of legislative principles.

ii. The right aim of legislation is the carrying out of the principle of utility, or, in other words, the proper end of every law is the promotion of the greatest happiness of the greatest number.

This principle is the formula with which popular memory has most closely connected the name of Bentham. Whatever objections this principle may be open to, one may with confidence assert that it is far more applicable to law than to morals, for at least two reasons: First, legislation deals with numbers and with whole classes of men; morality deals with individuals. It is obviously easier to determine what are the things which as a general rule promote the happiness of a large number of persons, than to form even a conjecture as to what may constitute the happiness of an individual. Let it be noted that the law aims not at positive happiness, but only at the creation of conditions under which it is likely that its subjects will prosper. Secondly, law is concerned primarily with external actions, and is only very indirectly concerned with motives. Morality, on the other hand, is primarily concerned with motives and feelings. But it is far easier to maintain that the principle of utility is the proper standard of right action than that it supplies the foundation on which rests the conviction of right or wrong.

Ideas of happiness, it has been objected, vary in different ages, countries, and among different classes; a legislator, therefore, gains no real guidance from the dogma that laws should aim at promoting the greatest happiness of the greatest number. To this objection

¹⁶Adapted from *Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century*, pp. 125-49. Copyright by Macmillan & Co., 1905.

there exists at least two answers. The first is that, even if the variability of men's conceptions of happiness be admitted, the concession proves no more than that the application of the principle of utility is conditioned by the ideas of human welfare which prevail at a given time in a given country. There is no reason why utilitarianism should refuse to accept this conclusion. Different laws may promote the happiness of different people. The second reply is that, as regards the conditions of public prosperity, the citizens of civilized states have, in modern times, reached a large amount of agreement. For instance, who can seriously doubt that a plentiful supply of cheap food, efficient legal protection against violence and fraud, and the freedom of all classes from excessive labor conduce to the public welfare? What man out of Bedlam ever dreamed of a country the happier for pestilence, famine, and war? Laws deal with very ordinary matters, and deal with them in a rough and ready manner. The character, therefore, of a law, may well be tested by the rough criterion embodied in the doctrine of utility.

There still exists, however, an objection that must be examined with care. Bentham and his disciples have displayed a tendency to underestimate the diversity between human beings. They have too easily accepted the notion of uniformity in ideas of happiness in different countries and different ages. This supposition has facilitated legislation, but it has led to the feeling that laws which in the nineteenth century promoted the happiness of Englishmen, must at all times promote the happiness of the inhabitants of all countries.

The foundation then of legislative utilitarianism is the combination of two convictions. The one is the belief that the end of human existence is the attainment of happiness; the other is the assurance that legislation is a science and that the aim of laws is the promotion of human happiness.

III. Every person is in the main and as a general rule the best judge of his own happiness. Hence legislation should aim at the removal of all those restrictions on the free action of an individual which are not necessary for securing the like freedom on the part of his neighbors.

This dogma of *laissez faire* is not from a logical point of view an essential article of the utilitarian creed. A benevolent despot might enforce upon his people laws which, though they might diminish individual liberty, were likely, nevertheless, to insure the well-being of his people. Yet *laissez faire* was practically the most vital part of Bentham's doctrine. Bentham perceived that under a system of ancient customs modified by haphazard legislation, unnumbered restraints were placed on the actions of individuals, which were in no sense necessary for the safety and good order of the community at

large, and he inferred at once that these restraints were evils. Consequently we have from him the eulogy of *laissez faire*. But with him and his disciples it was a totally different thing from easy acquiescence in the existing conditions of life. It was a war cry. It sounded the attack upon every restriction, not justifiable by some definite and assignable reason of utility.

From these three guiding principles of legislative utilitarianism—the scientific character of sound legislation, the principle of utility, faith in *laissez faire*—English individualists have in practice deduced the two corollaries: that the law ought to extend to the sphere and enforce the obligation of contracts; and that, as regards the possession of political power, every man ought to count for one and no man count for more than one. Each of these ideas has been constantly entertained by men who have never reduced it to a formula or carried it out to its full logical result; each of these two ideas has profoundly influenced modern legislation.

18. The Individualistic Theory of Government¹⁷

BY JOHN STUART MILL

We have now reached the question to what objects governmental intervention in the affairs of society may or should extend. The supporters of interference have been content with asserting a general right and duty on the part of government to intervene, wherever its intervention would be useful; and when those who have been called the *laissez-faire* school have attempted any definite limitation of the province of government, they have usually restricted it to the protection of person and property against force and fraud; a definition to which neither they nor anyone else can deliberately adhere, since it excludes some of the most indispensable and unanimously recognized of the duties of government.

Whatever theory we adopt respecting the foundation of the social union, and under whatever political institutions we live, there is a circle around every individual human being, which no government, be it that of one, or a few, or of the many, ought to be permitted to overstep: there is a part of the life of every person who has come to years of discretion, within which the individuality of that person ought to reign uncontrolled either by any other individual or by the public collectively. That there is, or ought to be, some space in human existence thus entrenched around, and sacred from authoritative intrusion, no one who professes the smallest regard to human freedom or dignity will call in question.

¹⁷Adapted from *Principles of Political Economy* (1848), Book V, chap. xi.

Even in those portions of conduct which do affect the interests of others, the *onus* of making out a case always lies on the defenders of legal prohibitions. It is not a merely constructive or presumptive injury to others, which will justify the interference of law with individual freedom. To be prevented from doing what one is inclined to, or from acting according to one's own judgment of what is desirable, is not only always irksome, but always tends to starve the development of some portion of the bodily or mental faculties, either sensitive or active; and unless the conscience of the individual goes freely with the legal restraint, it partakes, either in a great or in a small degree, of the degradation of slavery.

A second general objection to government agency is that every increase of the functions developing on the government is an increase of its power, both in the form of authority, and still more, in the indirect form of influence. The public collectively is abundantly ready to impose, not only its generally narrow views of its interests, but its abstract opinions, and even its tastes, as laws binding upon individuals. And the present civilization tends so strongly to make the power of persons acting in masses the only substantial power in society, that there never was more necessity for surrounding individual independence of thought, speech, and conduct, with the most powerful defences. Hence it is no less important in a democratic than in any other government, that all tendency on the part of public authorities to stretch their interference should be regarded with unremitting jealousy.

A third general objection to government agency rests on the principle of the division of labor. Every additional function undertaken by the government is a fresh occupation imposed upon a body already overcharged with duties. A natural consequence is that most things are ill done; much not done at all, because the government is not able to do it without delays which are fatal to its purpose.

I have reserved for the last place one of the strongest of the reasons against the extension of government agency. Even if the government could comprehend within itself, in each department, all the most eminent intellectual capacity and active talent of the nation, it would not be the less desirable that the conduct of a large portion of the affairs of society should be left in the hands of the persons immediately interested in them. A people among whom there is no habit of spontaneous action for a collective interest who look habitually to their government to command or prompt them in all matters of joint concern have their faculties only half developed; their education is defective in one of its most important branches. There cannot be a combination of circumstances more dangerous to human welfare than that in which intelligence and talent are maintained at

a high standard within a governing corporation, but starved and discouraged outside the pale. Few will dispute the more than sufficiency of these reasons, to throw, in every instance, the burden of making out a strong case, not on those who resist, but on those who recommend government interference. *Laissez faire*, in short, should be the general practice; every departure from it, unless required by some great good, is a certain evil.

But we must now turn to the second part of our task, and direct our attention to cases, in which some of those general objections are altogether absent, while those which can never be got rid of entirely are overruled by counter-considerations of still greater importance.

Can it be affirmed, for instance, that the consumer is the most competent judge of the end? Is the buyer always qualified to judge of the commodity? The proposition can be admitted only with numerous abatements and exceptions. This is peculiarly true of those things which are chiefly useful as tending to raise the character of human beings. The uncultivated cannot be competent judges of cultivation. Those who most need to be made wiser and better usually desire it least, and if they desired it, would be incapable of finding the way to it by their own lights. In the matter of education, the intervention of government is justifiable, because the case is not one in which the interest and judgment of the consumer are a sufficient security for the goodness of the commodity. Let us now consider other cases, where, for one reason or another, governmental interference is necessary. These may be classed under several heads.

First, the individual who is presumed to be the best judge of his own interests may be incapable of judging or acting for himself; may be a lunatic, an idiot, an infant; or, though not wholly incapable, may be of immature years and judgment. In this case the foundation of the *laissez-faire* principle breaks down entirely. The person most interested is not the best judge of the matter, nor a competent judge at all. To take an example from the peculiar province of political economy; it is right that children, and young persons not yet arrived at maturity, should be protected, so far as the eye and hand of the state can reach, from being over-worked. Freedom of contract, in the case of children, is but another word for freedom of coercion. Education also is not a thing which parents or relatives should have it in their power to withhold.

But the classing together, for this and other purposes, of women and children, appears to me both indefensible in principle and mischievous in practice. Children below a certain age cannot judge or act for themselves, but women are as capable as men of appreciating and managing their own concerns, and the only hindrance to their doing so arises from the injustice of their present social position. If

women had as absolute a control as men have over their own persons and their own patrimony or acquisitions, there would be no plea for limiting their hours of laboring for themselves, in order that they might have time to labor for the husband, in what is called *his* home. Women employed in factories are the only women in the laboring rank of life whose position is not that of slaves and drudges.

A second exception is when an individual attempts to decide irrevocably now what will be best for his interest at some future and distant time. The practical maxim of leaving contracts free is not applicable without great limitations in case of engagements in perpetuity; and the law should be extremely jealous of such engagements.

The third exception which I shall notice has reference to the great class of cases in which the individuals can only manage the concern by delegated agency, and in which the so-called private management is, in point of fact, hardly better entitled to be called management by the persons interested, than administration by a public officer. Whatever, if left to spontaneous agency, can only be done by joint stock associations will often be as well, and sometimes better done, as far as the actual work is concerned by the state. Government management is, indeed, proverbially jobbing, careless, and ineffective, but so likewise has generally been joint-stock management.

To a fourth cause of exception I must request particular attention, it being one to which, as it appears to me, the attention of political economists has not yet been sufficiently drawn. There are matters in which the interference of law is required, not to overrule the judgment of individuals respecting their own interest, but to give effect to that judgment; they being unable to give effect to it except by concert, which concert again cannot be effectual unless it receives validity and sanction from the law. For illustration I may advert to the question of diminishing the hours of labor. Let us suppose that a general reduction of the hours of factory labor, say from ten to nine, would be for the advantage of the work people; that they would receive as high wages, or nearly as high, for nine hours' labor as they receive for ten. If this would be the result, and if the operatives generally are convinced that it would, the limitation, some may say, will be adopted spontaneously. I answer that it will not be adopted unless the body of operatives bind themselves to one another to abide by it. For however beneficial the observance of the regulation might be to the class collectively, the immediate interest of every individual would lie in violating it; and the more numerous those were who adhered to the rule, the more would individuals gain by departing from it.

Fifthly, the argument against government interference cannot apply to the very large class of cases, in which those acts of individuals with which the government claims to interfere, are not done by those individuals for their own interest, but for the interest of other people. This includes, among other things, the important and much agitated subject of public charity. Though individuals should, in general, be left to do for themselves whatever it can reasonably be expected that they should be capable of doing, yet when they are at any rate not to be left to themselves, but to be helped by other people, the question arises whether it is better that they should receive this help exclusively from individuals, and therefore uncertainly and casually, or by systematic arrangements, in which society acts through its organ, the state. Other cases, falling within the same general principle, are those in which the acts done by individuals, though intended solely for their own benefit, involve consequences extending indefinitely beyond them, to interests of the nation or of posterity, for which society in its collective capacity is alone able, and alone bound, to provide.

The same principle extends also to a variety of cases, in which important public services are to be performed, while yet there is no individual specially interested in performing them, nor would any adequate remuneration naturally or spontaneously attend their performance. Take for instance a voyage of geographical or scientific exploration. It may be said, generally, that anything which it is desirable should be done for the general interests of mankind or of future generations, or for the present interests of those members of the community who require external aid, but which is not of a nature to remunerate individuals or associations for undertaking it, is in itself a suitable thing to be undertaken by government.

The preceding heads comprise, to the best of my judgment, the whole of the exceptions to the practical maxim that the business of society can be best performed by private and voluntary agency. It is, however, necessary to add that the intervention of government cannot always practically stop short at the limit which defines the cases intrinsically suitable for it. In the particular circumstances of a given age or nation, there is scarcely anything, really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself. Even in the best state which society has yet reached it is lamentable to think how great a proportion of all the efforts and talents in the world are employed in merely neutralizing one another. It is the proper end of government to reduce this wretched waste to the smallest possible amount, by taking such measures as shall cause the energies now spent by mankind in injuring one another, or in protecting themselves against

injury, to be turned to the legitimate employment of the human faculties, that of compelling the powers of nature to be more and more subservient to physical and moral good.

19. The Authoritative Basis of Laissez Faire¹⁸

There is nothing novel in the assertion that deference to authority is the most persistent and fundamental of the many aspects of the intellectual attitude, *laissez faire*. True it is that the expression carries the idea of an industrial regime going its way, untrammelled by state interference. In fact its most obvious meaning seems to be a policy under which the individual shall be legally free to select his own occupation, choose his own business associates, employ an industrial technique and organization which is to his own liking, and buy his materials and labor and market his wares on terms voluntarily made. Thus it means freedom for the individual in the immediate conduct of his business and the sale of his wares.

But it does not totally exclude authority. Many advocates of *laissez faire* see nothing amiss in governmental grants of public lands, subsidies, patents, or franchises. Many would permit the state to levy customs duties intended to check importations, raise prices, and increase the number of those engaged in protected industries. All would allow the state to encourage commerce by improving transportation and credit facilities. It is perhaps not an overstatement to say that the advocate of *laissez faire* regards as interference, not all political activity affecting industry, but only such as adversely affects business interests.

Instances such as the above, however, are only passing phases of the situation. Penetrating and conditioning industrial activity at every point there is a tangled web of legal, political and social institutions. Among the legal institutions are the prohibition of physical violence in industrial activity, a recognition of private property rights, machinery for compelling the discharge of obligations voluntarily assumed, and prescribed forms for partnerships and corporations. Among the social institutions are a system of intangible and immaterial property rights, the manifestations of public and class opinions, a code of business ethics, and a system of collective action and the recognition of collective authority in individual industrial establishments. Upon these the advocate of *laissez faire* of necessity takes an attitude. Since these institutions change slowly and are conceived of as indispensable, they have generally been regarded by the business man as a part of the unchangeable nature of things. Therefore

¹⁸An editorial (1913).

laissez faire formally says nothing about them. Yet its very silence is the best evidence of its unqualified approval of habitual legal and social institutions and its demand that the individual be hedged about with conventional authority.

Not only is the province from which authority is excluded a narrow one, but even in that province *laissez faire* is conceived of as a mere means for securing some desirable social end. Neither theorist nor layman, in formulating his reasons for supporting this policy, declares himself in favor of a purely acquisitive system, wherein the strong shall wax stronger at the expense of the weak. By the older school, whose aspirations for society were democratic, it was argued that the competitive struggle, under *laissez faire*, resulted in the greatest good, not only to the highly successful few, but to every member of the social community. By the newer school the basis of whose theories is biological, and whose ideal is aristocratic, its justification is found in the elimination of the unfit, the perpetuation of the fit, and the tendency of society towards a higher cultural level. By some of the latter charity is strongly condemned, not because it strips the fit of some of the earnings which the industrial struggle has brought him, but because the survival of dependents tends to lower the prevailing type of civilization. Into the merits of these theories this is not the place to go. Here it is enough to note that even its most extreme advocates do not conceive of *laissez faire* as a theory of predation, nor seek to justify it by any benefit, however great, which it may confer on the individual. On the contrary, over and above him, a conscious social end is set up, to the realization of which his activities must tend, and in view of which the policy itself is to be approved or condemned.

G. THE PROTEST AGAINST INDIVIDUALISM

20. The Tyranny of the Machine¹⁹

BY JOSEPH HARDING UNDERWOOD

The modern "tripods of Hephaestus"—the spinning jenny, the mule, the loom—instead of serving as allies to human hands, speedily became masters of "hands." The undemocratic idea prevailed—*laissez faire*, let me do as I please—"me" being a man with a hundred hands, which speedily became a thousand. The use of men, women, and children by factory-owners at the beginning of the nineteenth century had all the advantages and none of the disadvantages

¹⁹Adapted from *The Distribution of Ownership*, pp. 52-53 (1907). Published by Columbia University Press, author's copyright.

of slave ownership. Starvation brought the wives and daughters of the workmen to the factories and, since only their labor and not their strength had to be bought, there was no waste in wearing them out. Half-naked women were harnessed to draw carts in the mines through passages two feet seven inches high; children of seven worked twelve to fourteen hours a day in factories. There were regular traffickers in children of paupers. "In stench, in heated rooms, amidst the constant whirring of a thousand wheels, little fingers and little feet were kept in constant action, forced into unnatural activity by blows from the heavy hands and feet of the merciless overlooker and the infliction of bodily pain by instruments of punishment, invented by the sharpened ingenuity of insatiable selfishness."²⁰ They were fed the same food that the master gave his pigs. Irons were riveted to the ankles and chained to the hips of girls and women to keep them from running away. The suicides, the murdered, and the tired were buried secretly, No such cruelty was ever widespread under slavery. It would not pay.

21. The Passing of the Frontier

BY THOMAS B. MACAULAY ²¹

Despots plunder their subjects, though history tells them that, by prematurely exacting the means of profusion, they are in fact devouring the seed-corn from which the future harvest is to spring. Why, then, should we suppose that people will be deterred from procuring immediate relief and enjoyment by the fear of calamities that may not be fully felt till the times of their grandchildren?

The case of the United States is not in point. In a country where the necessities of life are cheap and the wages of labor high, where a man who has no capital but his legs and arms may expect to become rich by industry and frugality, it is not very decidedly even for the immediate advantage of the poor to plunder the rich. But in countries where the great majority live from hand to mouth, and in which vast masses of wealth have been accumulated by a comparatively small number, the case is widely different. The immediate want is at particular seasons imperious, irresistible. In our own time it has steeled men to the fear of the gallows, and urged them on to the point of the bayonet. And, if these men had at their command that gallows, and those bayonets which now scarcely restrain them, what is to be expected? The better the government, the greater is the inequality of conditions; and the greater the inequality of conditions, the

²⁰ Gibbins, *Industry in England*, p. 389.

²¹ Adapted from the essay on *Mill on Government*, 1828.

stronger are the motives which impel the populace to spoliation. As for America, we appeal to the twentieth century.

BY JAMES BRYCE ²²

America, in her swift, onward progress, sees, looming on the horizon, and now no longer distant, a time of mists and shadows, wherein dangers may be concealed whose form and magnitude she can scarcely yet conjecture. As she fills up her western regions with inhabitants, she sees the time approach when all the best land will have been occupied, and when the land under cultivation will have been so far exhausted as to yield scantier crops even to more extensive culture. Although transportation may also then have become cheaper, the price of food will rise; farms will be less easily obtained and will need more capital to work them with profit; the struggle for existence will become more severe. And while the outlet which the West now provides for the overflow of the great cities will have become less available, the cities will have become immensely more populous; pauperism, now confined to six or seven of the greatest, will be more widely spread; wages will probably sink and work will be less abundant. In fact, the chronic evils and problems of the old societies and crowded countries, such as we see them in Europe today, will have reappeared on this new soil.

BY PETER FINLEY DUNNE

"Opportunity," says Mr. Dooley, "knocks at iv'ry man's dure wanst. On some men's drues it hammers till it breaks down th' dure an' then it goes in an' wakes him up if he's asleep, an' afterwards it worrucks f'r him as a nightwatchman. On some men's dures it knocks an' runs away, an' on th' dures iv some men it knocks an' whin they come out it hits thim over th' head with an axe. But iv'ry wan has an opporchunity."

22. The New Issues ²³

BY WILLIAM GARROTT BROWN

The twentieth century is upon us. Americans are beginning to find themselves confronted with the questions which have already long beset older and more crowded countries. We can hardly doubt

²²Adapted from *The American Commonwealth* (1st ed.; 1888), III, 662.

²³Adapted from *The New Politics and Other Papers*, pp. 6-28. Copyright by Eugene L. Brown. Published by Houghton, Mifflin & Co., 1914.

that certain new public issues which within the last two or three years have come very swiftly to the front have come to stay. We are not yet an old society, or a crowded country. But—the frontier is gone. We are in the situation of a man who, though still very young, has nevertheless reached maturity and come into full possession of his estate; of an estate vast, but yet of a vastness no longer incalculable, no longer uncalculated, and which is also appreciably impaired by the waste and extravagance of his youth.

We face, therefore, the responsibility of maturity, of a more careful development and husbandry of our great demesne. The time of boundless anticipation is past. We have instead a sure sense of strength, but with it comes also at last the sense that even our strength, and our capacity for growth, have their limits. There is as yet no real pinch, no severe pressure or congestion; far from it. But the certainty that these things are in the future is at last borne in upon us by facts and warnings. That is enough to change our mood. We are taking up, and ought to be taking up, certain of the problems of "old societies and crowded countries," and the coming of these new problems has somewhat changed the aspect of certain others which, even with us, are old.

The new issues all have this much in common: They are all at bottom economic, and economic in a very strict derivative sense of the word—all questions of national housekeeping, of the safeguarding, the development, and the distribution of our immense national inheritance. The rapid and revolutionary development of transportation has transformed bewilderingly the entire field with which economic legislation must deal. It is not merely that we are approaching the problems of older societies. These problems have taken on for us new aspects, aspects hardly known elsewhere, and a truly American vastness of range. We can and should profit by a close study of European experience. But the guidance we can get from older countries, however valuable, is limited. There are things which we must work out for ourselves; for the new industry is much farther advanced with us, and much more firmly established, than with the older peoples.

The particular new issue on which we can get the most guidance from Europe, and which is therefore the simplest of all, is that of conservation. To call that issue a question would be a misnomer. The only question should be of ways and means, and concerning these it will be some time before we exhaust the enlightenment to be got from European experience. In the matter of the national conservation of the use of water power, we have in the example of Switzerland an admirable object-lesson.

Concerning this there is hardly a question; but there is an issue; there is a conflict, a struggle; and the violence and magnitude and difficulty of it are greater than anywhere else in the world. That is so because nowhere else are private interests so well organized or so powerful, and nowhere else have they such opportunities to acquire control of the various means of wealth. There is thus an issue between the permanent public weal and the selfishness of individuals and groups. For there has come about a massing of great and little accumulations, and an organization of capital and industry under a few heads; so that the struggle is on behalf of the people against the combinations. To take an instance, the lumber kings were not slow to see how rapidly the country was being deforested. They looked ahead and bought timber lands everywhere. And it can hardly be questioned that, law and usage remaining what they are, the same forces which have made for monopoly and against competition in other things will monopolize the country's water power as well.

The swift and universal rise in prices should serve to awaken us to the actual state of industry and exchange among us. Our awakening to the necessity of economy is still but a part of the greater awakening to the true extent of the changes which have come about in our industrial life. The field is so vast that only a superficial glance at the main features of the new order is here possible.

The most striking and important fact—a fact which is in a way inclusive of the whole matter—is this: Competition, as we have known it in the past, the kind of competition on whose existence and continuance our law and usage concerning industry and property are largely based, is breaking down. Take any one of the dozens of articles in general consumption, and thorough investigation will very likely disclose that real and vital competition no longer prevails in its production or distribution. A combination of manufacturers makes it, a combination of common carriers fixes the charges of transporting it to market, and the original combination names the terms upon which the retail dealers may handle it. If investigations in prices go far enough I am sure they will also disclose such combinations in the smaller communities as well. The dependence of the ordinary shopkeepers on the trusts for supplies is so widespread that the old law of competition has been in large measure nullified. The consumers, in fact, seem to be the only industrial group which has so far failed to combine. It is impossible not to feel that the tendency is so universal as to mean unmistakably a new industrial order.

What does this change mean for the individual as a part and member, an industrial unit, of the new order? Clearly, it means, and it must continue to mean until the system is somewhat modified

in his interests, less independence, a narrower range of opportunity. There is no reason to believe that it means on the whole less comfort or a lowered standard of living. The contrary is more probably true. Neither does the change mean that the man of ability and ambition cannot rise. He can. A policy of promotions for merit is plainly to the interest of every great business. That great combinations have adopted that policy is the principal reason why they are so well served. But these things do not rid us of the fact that the coming of the new order has meant a loss of independence, of industrial freedom to the great mass of individuals. Their chance to rise is but one way—by obedience to the laws of the system to which they belong; and in the making of these laws they have no voice. There is real independence only at the top; and to reach the top is beyond the hopes of all but a very few. Clearly the new system is less democratic than the old.

But to get a fuller conception of the change, we must go to the source of initiative and control in business, to the men who direct the capital of the country. For the principle of combination has made it possible for a few great capitalists to get control of the accumulated savings of hundreds of thousands of people of small means. A single great banking concern is charged with the direction of some six billion dollars variously invested, in manufacturing, in banking, in transportation, in mines, in many other ways. Such power could go far to corrupt the press. Less power has already corrupted legislatures; has suborned executives; has reached even the courts.

Here is but the merest glance at the new conditions. But it may, I think, be sufficient to enable us to formulate the new issues. We are confronted with adapting the democratic principle to conditions that did not exist when American democracy arose: that is to say, to a field no longer unlimited, to opportunities no longer boundless, and to an industrial order in which competition is no longer the controlling principle, an industrial order which is, therefore, no longer democratic, but increasingly oligarchical. To save itself politically, democracy must therefore extend itself into this field. Plainly, therefore, *laissez faire* can no longer be its watchword. That was the watchword of the régime of competition. Democracy's task is twofold. It must secure for the people some kind of effective, ultimate control over the natural sources of all wealth; and it must also secure, in an industrial system, no longer controlled by competition, protection and opportunity for the individual.

The ancient warfare of democracy and privilege must be begun all over again, and with new tactics, new strategy. In the presence of the new issues many of the old issues will be altered. The old

struggle over the tariff will be less a matter of sectional issues, less a matter of contrary economic theories, and more a phase of the great struggle between democracy and privilege. The old constitutional questions, thought forever settled, will reappear in new forms. The rights and powers of both the states and the nation must be scrutinized afresh. Before the end we may have to go still farther back and find for the common law itself, if not new principles, at any rate, new formulas. For I doubt if we shall end before we have revised many of what we thought our fundamental conceptions of property and of human rights.

H. THE REAPPEARANCE OF THE PROBLEM OF CONTROL

23. The Individualistic Basis of Social Control²⁴

BY THOMAS HILL GREEN

Freedom is valuable only as a means to an end. That end is the liberation of the powers of all men equally for contributions to a common good. No one has a right to do what he will with his own in such a way as to contravene that end. It is only through the guaranty society gives him that he has property at all. This guaranty is founded on a sense of common interests. Everyone has an interest in securing to everyone else the free use and enjoyment and disposal of his possession, because such freedom contributes to that equal development of the faculties of all which is the highest good for all. This is the true and only justification of the rights of property. Property being only justifiable as a means to the free exercise of the social capabilities of all, there can be no true right of property of a kind which debars one class of men from such free exercise altogether. We condemn slavery no less when it rises out of voluntary agreement on the part of the enslaved person. A contract by which anyone agreed for a certain consideration to become the slave of another person we would reckon a void contract. Here, then, is a limitation upon freedom of contract that we all recognize as rightful. No contract is valid in which human persons are dealt with as commodities, because such contracts of necessity defeat the end for which alone society enforces contracts at all.

Are there no other contracts which, less obviously perhaps, but really, are open to the same objection? Let us consider contracts

²⁴Adapted from the "Lecture on Liberal Legislation and Freedom of Contract," *Works*, III, 372-86. Edited by R. L. Nettleship, 1880. Published by Longmans, Green & Co.

affecting labor. Labor, the economist tells us, is a commodity exchangeable like other commodities. This is in a certain sense true, but it is a commodity which attaches in a peculiar manner to the person of man. Hence restrictions may need to be placed on its sale which would be unnecessary in other cases, to prevent it from being sold under conditions which make it impossible for the person selling it ever to become a free contributor to social good in any form. This is most plainly the case where a man bargains to work under conditions fatal to health. Every injury to the health of the individual is, so far as it goes, a public injury. It is an impediment to the general freedom; so much deduction from our power, as members of society, to make the best of ourselves. Society, therefore, is plainly in its right when it limits freedom of contract for the sale of labor, so far as is done by laws for the sanitation of factories and mines.

It is equally within its right in prohibiting the labor of women and young persons beyond certain hours. If they work beyond these hours, the result is demonstrably physical deterioration, which carries with it a lowering of the moral forces of society. For the sake of the general freedom of its members to make the best of themselves, which it is the object of civil society to secure, a prohibition should be put on all such contracts of service as in a general way yield such a result. The purchase and hire of unwholesome dwellings are properly forbidden on the same principle.

Its application to compulsory education may not be quite so obvious, but it will appear on a little reflection. Without a command of certain elementary arts and knowledge, the individual in modern society is as effectually crippled as by the loss of a limb or a broken constitution. With a view to securing freedom among its members it is certainly within the province of the state to prevent children from growing up in that kind of ignorance which practically excludes them from a free career in life.

Just as labor, though an exchangeable commodity, differs from all other commodities, land, too, has its characteristics, which distinguish it from ordinary commodities. It is from the land that the raw material of all wealth is obtained. It is only upon the land that we can live; only across the land that we can move from place to place. The state, therefore, in the interest of that public freedom which it is its business to maintain, cannot allow the individual to deal as he likes with his land to the same extent to which it allows him to deal with other commodities. It is an established principle that the sale of land should be enforced by law when public convenience requires it. The landowner of course gets the full value of the land which he is compelled to sell, but of no other ordinary

commodity is the sale thus enforced. This illustrates the peculiar necessity in the public interest of putting some restrictions on a man's liberty of doing what he will with his own. The question is whether, in the same interest, further restraint does not need to be imposed on the liberty of the landowner. Should not the state for public purposes prevent the land from being tied up in a manner which prevents its natural distribution and keeps it in the hands of those who cannot make the most of it? It is so settled that at present all the land necessarily goes to the owner's eldest son. The evil effects of this system are twofold. It almost entirely prevents the sale of agricultural land in small quantities, and thus hinders that mainstay of social order, a class of small proprietors tilling their own land. It also keeps large quantities of land in the hands of men who are too much burdened by debts to improve it. The landlord in such cases has not the money to improve, the tenant has not the security which would justify him in improving. On the simple and recognized principle that no man's land is his own for purposes incompatible with the public convenience, we ask that legal sanction should be withheld from settlements which interfere with the distribution and improvement of land.

To uphold the sanctity of contracts is doubtless a prime business of government, but it is no less its business to provide against contracts being made, which, from the helplessness of one of the parties to them, instead of being a security for freedom, becomes an instrument of disguised oppression. Men are not at liberty to buy and sell when they will, where they will, and as they will. There is no right to freedom in the sale or purchase of a particular commodity, if the general result of allowing such freedom is to detract from freedom in the higher sense, from the general power of men to make the best of themselves. The danger of legislation, either in the interests of a particular class or for the promotion of particular religious opinions, we may fairly assume to be over. The popular jealousy of law is out of date.

24. *Laissez Faire in Practice*²⁵

BY L. T. HOBHOUSE

In the main, the teaching of the school tended to a restricted view of the function of government. Government had to maintain order, to restrain men from violence and fraud, to hold them secure in person and property against foreign and domestic enemies, that they

²⁵Adapted from *Liberalism*, pp. 81-101. Copyright by Henry Holt & Co., 1911.

might rely upon reaping where they had sown, and might enjoy the fruits of their industry.

The factory system early brought matters to a head at one point by the systematic employment of women and young children under conditions which outraged the public conscience when they became known. In the case of children it was admitted that the principle of free contract could not apply. It felt the child to be exploited by the employer in his own interest. But this principle admitted of great extension. If the child was helpless, was the grown-up person, man or woman, in a much better position? Here was the owner of a mill employing five hundred hands. Here was an operative possessed of no alternative means of subsistence seeking employment. Suppose them to bargain as to terms. If the bargain failed the employer lost one man. At worst he might have a little difficulty for a day or two in working a single machine. During the same days the operative might have nothing to eat, and might see his children going hungry. Where was the effective liberty in such an arrangement? In the matter of contract true freedom postulates substantial equality between the parties. In proportion as one party is in a position of advantage he is able to dictate the terms. In proportion as the other party is in a weak position, he must accept unfavorable terms. Hence the truth of Walker's dictum that economic injuries tend to perpetuate themselves. For purposes of legislation the state began with the child, where the case was overwhelming. It went on to include the young person and the woman. It drew the line at the adult male, and it is only within our own time that legislation has avowedly undertaken the task of controlling the conditions of industry. To this it has been driven by the manifest teachings of experience that liberty without equality is a name of noble sound and squalid result.

In place of the system of unfettered agreement contemplated the industrial system which has actually grown up and is in process of further development rests on conditions prescribed by the state. The law provides for the safety of the worker and sanitary conditions of employment. It prescribes the length of the working day for women and children. In the future it will probably deal freely with the hours for men. It makes employers liable for injuries suffered by operatives. Within these limits it allows freedom of contract.

The theory of *laissez faire* assumed that the state would hold the ring. It would suppress force and fraud, keep property safe, and aid men in enforcing contracts. In these conditions men should be absolutely free to compete with each other, so that their best energies should be called forth. But why, on these conditions, just these, and

no others? Why should the state insure protection of person and property? The time was when the strong man armed kept his goods, and incidentally his neighbor's goods too, if he could get hold of them. Why should the state intervene to do for a man that which his ancestors did for themselves? Why should a man who has been soundly beaten in physical fight go to a public authority for redress? How much more manly to fight his own battle. Was it not a kind of pauperization to make men secure in person and property, through no efforts of their own, by the agency of a state machinery operating over their heads? Would not a really consistent individualism abolish this machinery? "But," the advocate of *laissez faire* may reply, "the use of force is criminal, and the state must suppress crime." So men held in the nineteenth century. But there was an earlier time when they did not take this view, but left it to individuals and their kinsfolk to revenge their own injuries. Was not this a time of more unrestrained individual liberty. On what principle then is the line drawn, so as to specify certain injuries which the state may prohibit and to mark off others which it must leave untouched?

Individualism as ordinarily understood not only takes the policeman and the law court for granted. It also takes the rights of property for granted. But what is meant by the rights of property? In ordinary use the phrase means just that system to which long usage has accustomed us. This is a system by which a man is free to acquire by any method of production or exchange, within the limits of the law, whatever he can of land, consumable goods, or capital; to dispose of it at his own will and pleasure for his own purposes, to destroy it if he likes, to give it away or sell it as it suits him, and at death to bequeath it to whomsoever he will. The state can take a part of a man's property by taxation. But in all taxation the state is taking something from a man which is "his," and in so doing is justified only by necessity. In many ways, in the face of actual conditions, the individualist has been driven to a change in property rights in the direction of greater social control. The school of Henry George, individualists though they be, would purge the social system of the private ownership of land. This alone, say they, will insure genuine freedom to all individuals.

Thus individualism, when it grapples with the facts, is driven no small distance toward state regulation. Once again we have found that to maintain individual freedom and equality we have to extend the sphere of social control. We cannot assume any of the rights of property as axiomatic. We must look at their actual workings and consider how they affect the life of society.

25. Liberty and Interference²⁶

BY W. JETHRO BROWN

Broadly speaking, as society grows larger, as the economic structure becomes more complex, and as the possibilities of collective human action increase, the more elaborate must be the system of legal regulation if the liberty of the individual is not to be endangered. If it were true that the liberty of each individual was in inverse proportion to the amount of state regulation, the savage would be freer than the modern citizen. Further, the question whether any particular law involving a restriction upon the individual's desire to do as he likes is in derogation of his liberty cannot be answered merely by reference to the fact that a restriction is involved. It is only through the existence of such restriction that he has any liberty at all beyond "the desolate freedom of the wild ass."

To determine whether a law of the state is really in derogation of liberty we must consider the law in its relation to the social and industrial conditions of the times. At one stage in English history the liberty of the subject came to be specially associated with the idea of protection from baronial tyranny. In the seventeenth, eighteenth, and nineteenth centuries it came to be associated with the idea of protection from the government. In the later nineteenth century the achievements of industrial progress gave a new direction to the demand for freedom. When the fear of governmental autocracy was succeeded by the fear of an economic plutocracy, men once again invoked the state to action. The way was thus prepared for a complete theory of liberty. The negative aspect of liberty as immunity from governmental interference has its roots in the positive element of governmental regulation. That thinkers of our own day, who would be the first to admit that the regulation of the feudal lord by government was a phase of liberty, should maintain that the regulation of the modern capitalist by government implies a necessary departure from liberty, must surely be regarded as a curious example of the limitations of the human intellect.

The relation of state regulation to liberty may be illustrated by four propositions. In the first place such regulation may impose restrictions upon each citizen in the interests of the liberty of all citizens. The criminal code is an illustration. Men are not less free but more free because murder and robbery are prohibited. What they lose of the power of self-determination in one way is more than made up by increased power of self-determination in other ways. Many laws for the promotion of public health rest upon the same grounds. The

²⁶Adapted from *The Underlying Principles of Modern Legislation*, pp. 55-61. Copyright by John Murray, 1914.

purveyor of microbes may be more hostile to freedom than the burglar.

In the second place, state regulation may impose restrictions upon the actions of the few in order to promote the liberty of the many. Grant Allen has told a story of some Martian citizens who had inaugurated a Liberty and Property Defense League. A delegate from London, invited for the purpose of assisting their deliberations, was amazed to find that the liberty which the Martian society sought to defend was the liberty of every member of the red-haired caste to consume in each year a dozen of the black-haired majority. What the opponents of factory legislation called liberty was the privilege of the manufacturer to exploit his work people. Today it is no longer necessary to argue that the factory legislation increased the freedom of the community. In improving the conditions of labor it improved the health of the worker; in controlling the employment of children it helped to protect the youth of the nation; in controlling the employment of women it tended to safeguard the home; in restricting the hours of labor it provided new opportunities for culture, recreation, or indulgence. In a word, restraints were imposed upon the manufacturer as a means to the promotion of conditions essential to the free-development of the working population.

In the third place state regulation may impose restrictions on the many in the interests of the liberty of the few. Some writers go so far as to declare that the recognition of the claims of minorities is the true test of liberty. We can admit, without assenting to this view, that laws protecting unpopular sects, or controlling the action of subordinate social groups in such a way as to protect the minority from the majority, ought not to be regarded as necessarily hostile to liberty.

Finally, the liberty of the individual may be promoted by restrictions that the state imposes upon him in his own interests. In a humble sphere the municipal legislation of our time affords familiar examples. A by-law prescribes a penalty for boarding a train which is already full. A would-be passenger, compelled to wait in the rain until the next car passes, may be tempted to complain that his liberty is thereby infringed. If, however, he will employ the interval in profitable reflection he may learn to take a saner view. The by-law insures that he shall be free from being sat upon in the next car. More important still it serves to protect him from being exploited in the interests of a tramway company that would like to run one car where it ought to run two. We have all heard of the suburban strap-hangers of New York; and we do not envy their freedom to pass a not inconsiderable portion of their lives in clinging to a strap.

A less controversial illustration may be found in the control of the unemployable. While it may be pleasant to live in idleness, I incline to the opinion that the stern discipline of the "work-shy," though it may restrict his power to do as he likes, is calculated to make a freer man of him. In these and a multitude of like cases, we can see exemplified the truth of the paradox that men may be forced to be free.

A rejection of the legislative policy of *Laissez faire* is not inconsistent with an ideal of liberty, but should rather be considered as a transition to a more adequate understanding both of the nature of liberty and of the means of its realization. I shall now indicate briefly the more important differences involved in this transition.

1. The conflict of law and liberty is seen to be accidental, not essential. It may arise where the machinery of government has been captured by a class, or when social and economic conditions have outgrown the traditional system of state regulation. In either case liberty presents a positive as well as a negative aspect, although the negative aspect may at first be more apparent. If old laws have to be repealed, new laws have also to be enacted. Hence, in a truly progressive society, law and liberty grow together.

2. Liberty is catholic. It seeks freedom, not for some men only, but for all men. The supreme achievement of our time is to be found in the emphasis now laid upon the freedom that is another's, as distinct from the freedom that is one's own. While *laissez faire* proclaimed an era of freedom for all men, it failed to recognize that such freedom was impossible under economic conditions that made for the perpetuation of a proletariat. In the later ideal the state is charged with the sacred responsibility of insuring conditions that will enable every citizen to prove his manhood.

3. The liberty that the legislation of our day seeks to promote is less the power to do as one likes than the power to do as one ought. This does not mean that the state is justified in prohibiting all conduct that is morally wrong—a view which is sometimes urged. But it does involve a wide departure from *laissez faire*. It agrees with *laissez faire* in defining freedom in terms of self-realization; but it implies a distinctive view of the nature of the self to be realized. Aristotle said, "The state was formed that might might live; but exists that they may live nobly."

II

THE ANTECEDENTS OF MODERN INDUSTRIALISM

If we are properly to understand current economic problems to the end of formulating a program for dealing with them, we must first get some impression of the present "system" from which they spring and of which they are aspects. The "system" is so much a part of our very lives and activities that we find it hard to think of it as "a" system, and are prone to view it as a part of the immutable universe itself. When active intellectual effort does point it out as only one of many systems, we often fail to see that it is in process of constant change. Clearly to understand—rather than to know—that it is only one among many possible systems and to see that it is persistently changing, even as we view it, let us try to catch a glimpse of it in process of development. In such a task we need neither general statements of the nature of its growth nor an intensive study of the "facts." Our concern is not with the past, but with the present; our interest is not in "events," but in the process. We want to see a system very unlike ours slowly giving way to the one with which we are familiar.

To that end as we read the selections below let us keep in mind the peculiar characteristics of the social "order" with which we are familiar. Among these its unity and the interdependence of its aspects are paramount. For example, the influence of the ideals of the mediaeval church upon industrial development suggests many phases of this interdependence. The selections given below on manorial and gild economy furnish material for a comparison of the spirit, values, activities, and institutions of our present system with others quite unlike it. Additional material for the same purpose is available in the selections devoted to mediaeval commercial development, policy, and theory. The readings also show that there is much in common between the social and industrial life of mediaevalism and the nineteenth century. The theory of the stewardship of wealth is to be found in modern sociology as well as in mediaeval theology; Italy in the fourteenth century faced many urban problems which are quite modern; the mediaeval artisan was familiar with the art of "soldiering"; few moderns could teach many new tricks of trade to the mediaeval craftsman; and there is more than a suggestion of a modern bill of rights in the eighteenth century document.

Quite as important is the evidence furnished by these readings of a movement toward the "modern" system. The very ideals of an unworldly church were leading toward a material and humanistic culture; priestly inhibition of usury, reinforced by superstitious stories of the torment in store for the money-lender, were increasingly impotent to remove the lure of jingling guineas promised by commercial ventures; the manor, a miniature world in itself, was losing its identity, and the gild was breaking down in the face of a wider and wider organization of industry; the commercial note of pecuniary profit was becoming more and more dominant; and the larger society was substituting the magic of price for personal relation as the means of organization. Developing society, at first unlike ours, was coming nearer and nearer to the system we know. Only the single movement of the industrial revolution was necessary to make it assume the form with which we are so familiar.

A. PRE-INDUSTRIAL ECONOMY

26. The Manor, a Self-sufficient Economy¹

BY WILLIAM J. ASHLEY

Till nearly the end of the fourteenth century England was a purely agricultural country. Such manufactures as it possessed were entirely for consumption within the land; and for goods of finer qualities it was dependent upon importation from abroad.

In the eleventh century, and long afterward, the whole country, outside the larger towns, was divided into manors, in each of which one person, called the lord, possessed certain important and valuable rights over all the other inhabitants. Let us picture to ourselves an eleventh-century manor in middle or southern England. There was a village street, and along each side of it the houses of the cultivators of the soil, with little yards around them: as yet there were no scattered farmhouses, such as were to appear later. Stretching away from the village was the arable land, divided usually into three great fields sown, one with wheat, one with oats or beans, while one was left fallow. The fields were subdivided into "furlongs"; and each furlong into acre or half-acre strips, separated, not by hedges, but by "balks" or unploughed turf; and these strips were distributed among the cultivators in such a way that each man's holding was made up of strips scattered up and down the three fields, and no man held two adjoining pieces. Each holder was obliged to cultivate his strips in accordance with the rotation of crops observed by his neighbors. There were also meadows, inclosed for hay harvest, and divided into portions by lot, or rotation, or custom, and after harvest thrown open again for the cattle to pasture upon. In most cases there was also some permanent pasture or wood, into which the cattle were turned, either "without stint," or in numbers proportioned to the extent of each man's holding.

The land was regarded as the property, not of the cultivators, but of a lord. It was divided into that part cultivated for the immediate benefit of the lord, the demesne or inland, and that held of him by tenants, the land in villenage, the latter being usually about two-thirds of the whole. The demesne consisted partly of separate closes, partly of acres scattered among those of the tenants in the common fields. Of the land held in villenage, the greater part was held in whole or half virgates. The virgate was a holding made up of scattered acre or half-acre strips in the three fields, with proportionate rights to meadow and pasture; and its extent, varying from sixteen to forty-eight acres, was usually thirty acres. The holders of such

¹Adapted from *An Introduction to English Economic History and Theory* (1894), I, 5-49. Published by Longmans, Green & Co.

virgates formed an estate socially equal among themselves, and all of them were under the same obligations of service to the lord.

The principal services which the lord exacted of the villein were, first, a man's labor for two or three days a week throughout the year, known as week work, or daily works, and second, additional labor for a few days at spring and autumn ploughing and at harvest. On such occasions the lord demanded the labor of the whole family, with the exception of the housewife. Besides these, there were usually small quarterly payments to be made in money, and miscellaneous dues in kind, so many hens and eggs, and so many bushels of oats at different seasons; as well as miscellaneous services, of which the most important is carting. During the boon days it was usual for the lord to feed the laborers.

The fundamental characteristic of the manorial group, regarded from the economic point of view, was its self-sufficiency, its social independence. The same families tilled the village fields from father to son. Each manor had its own law courts for the maintenance of order. Then as now, every village had its own church; with this advantage or disadvantage, that the priest did not belong to a different social class from his parishioners. The village included men who carried on all the occupations and crafts necessary for everyday life. There was always a water or windmill which the tenants were bound to use, paying dues which formed a considerable part of the lord's income. Many villages had their own blacksmith and carpenter, probably holding land on condition of repairing the ploughs of the demesne and the villagers.

Thus the inhabitants of an average English village went on, year in, year out, with the same customary methods of cultivation, living on what they produced, and scarcely coming in contact with the outside world. The very existence of towns, indeed, implied that the purely agricultural districts produced more than was required for their own consumption; and corn and cattle were regularly sent, even to distant markets. But the other dealings of the villages with the outside world were few. First, there was the purchase of salt, an absolute necessity in the mediaeval world, where people lived on salted meat for five months in the year. Second, iron was continually needed for the ploughs and other farm implements. Third, when a fresh disease, the scab, appeared among the sheep, tar became of great importance as a remedy. Perhaps the only other recurring need, which the village could not itself supply, was that of millstones.

Such were the chief characteristics of the manorial group as a whole self-sufficiency and corporate unity. Let us look at the position of the individual members in the group. Some had risen to the position of free tenants, but the great majority had continued to hold by

servile tenure. Of the position of this great majority the characteristic was permanence, with its disadvantages and also with its advantages.

It is instructive to compare the village as we have seen it with the village of today. In one respect there might seem to be a close resemblance. Then, as usually now, the village was made up of one street, with a row of houses on either side. But the inhabitants of the village street now are the laborers and artisans with one or more small shopkeepers. The farmers live in separate homesteads among the fields they rent, and not in the village street. Then all the cultivators of the soil lived side by side. Second, notice the difference as to the agricultural operations themselves. Now each farmer follows his own judgment in what he does. But the peasant-farmer of the period we have been considering was bound to take his share in a common system of cultivation, in which the time at which everything should be done and the way in which everything should be done was regulated by custom. A further difference is seen in the relations of lord and tenant as to the cultivation. Nowadays either the landlord does not himself farm any land in the parish, or his management of it is independent of the cultivation of any other land by tenants. But then almost all the labor on the demesne was furnished by the villein tenants, who contributed ploughs, oxen, and men. Compare finally the classes in the manor, with those in the village today. In a modern parish there will usually be a squire, some three or four farmers, and beneath them a comparatively large number of agricultural laborers. But in the mediaeval manor, much the greater part of the land was cultivated by small holders. Between the lord of the manor and the villein tenants there was, indeed, a great gulf fixed. But there was nothing like the social separation of classes of actual cultivators that exists today.

It may be well to note the nonexistence in the village group of certain elements which modern abstract economics is apt to take for granted. Individual liberty, in the sense in which we understand it, did not exist; consequently there could be no complete competition. The payments made by the villeins were not rents in the abstract economist's sense: for the economist assumes competition. The chief thought of lord and tenant was, not what the tenant could possibly afford, but what was customary. Finally, there was as yet no capital in the modern sense. Of course there was capital in the sense in which the word is defined by economists, "wealth appropriated to reproductive employment," for the villeins had ploughs, harrows, oxen, horses. But this is one of the most unreal of economic definitions. As has been well said, by capital we mean more than this; we mean a store of wealth that can be directed into new and more

profitable channels as occasion arises. In that sense the villeins certainly had no capital.

27. Wage Work and the Handicraft System²

BY CARL BÜCHER

When the land owned by a family becomes divided up and no longer suffices for its maintenance, a part of the rural population begins to produce for the market. At first the necessary raw material is gained from *their* own land or drawn from the communal forests; later on, if need be, it also is purchased. All sorts of allied productions are added; and thus there develops an endlessly varied system of peasant industry on a small scale.

But the evolution may take another course, and an independent professional class of industrial laborers arises and with them the industrial system of wagework. Whereas all industrial skill has hitherto been exercised in close association with property in land and tillage, the adept house-laborer now frees himself from this association, and upon his technical skill founds for himself an existence that gradually becomes independent of property in land. But he has only his simple tools for work; he has no business capital. He therefore always exercises his skill upon raw material furnished him by the producer of the raw material, who is at the same time the consumer of the finished product.

Here two distinct forms of this relationship are possible. In one case the wageworker is taken temporarily into the house, receives his board and, if he does not belong to the place, his lodging as well, together with his daily wage; and leaves when the needs of his customer are satisfied. We may designate this whole industrial phase as that of itinerancy, and the laborer carrying on work in this manner as an itinerant. The dressmakers and seamstresses whom our women are accustomed to take into their houses may serve as an illustration. On the other hand the wageworker may have his own place of business, and the raw material be given out to him. For working it up he receives a piecework wage. In the country the miller and the baker working for a wage are examples. We will designate this form of work home work. It is met with chiefly in industries that demand permanent means of production, difficult to transport. Both forms of work are still very common in all parts of the world. The system can be traced in Babylonian temple records; it can be followed in literature from Homer down through ancient and mediaeval times to the present day. These two forms of wagework have different origins. Itinerant labor is based upon the exclusive possession of

²Adapted from *Industrial Evolution*, pp. 162-72. Translated from the third German edition by S. Morley Wickett. Copyright by Henry Holt & Co., 1900.

aptitude for a special kind of work, home work upon the exclusive possession of fixed means of production. Upon this basis there arise all sorts of mixed forms between home work and wagework. The itinerant laborer is at first an experienced neighbor whose advice is sought in carrying out an important piece of work, the actual work, however, still being performed by members of the household. Even later it is the practice for the members of the customer's family to give the necessary assistance to the craftsman. In the case of home work the latter tradesman is at first merely the owner of the business plant and technical director of the production, the customer doing the actual work. This frequently remains true in the country today with oil-presses, flax-mills, and cider-mills.

From the economic point of view the essential feature of the wagework system is that there is no business capital. Neither the raw material nor the finished industrial product is for its producer ever a means of profit. The character and extent of the production are still determined in every case by the owner of the soil, who produces the raw material; he also superintends the whole process of production. From the sowing of the seed until the moment the bread is consumed the product has never been capital, but always a mere article for use in course of preparation. No earnings of management and interest charges or middleman's profits attach to the finished product, but only wages for work done.

Under certain social conditions this is a thoroughly economic method of production. It secures the excellence of the product and the complete adjustment of supply to demand. But it forces the consumer to run the risk attaching to industrial production, as only those needs that can be foreseen can find suitable and prompt satisfaction, while a sudden need must always remain unsatisfied. The system has also many disadvantages for the wageworker. Among these are the inconveniences and loss of time suffered in his itinerancy from place to place; also the irregularity of employment, which leads, now to the overwork, now to the complete idleness, of the workman.

In the Middle Ages wagework greatly facilitated the emancipation of the artisan from serfdom and feudal obligations, as it required practically no capital to start an independent business. It is a mistake still common to look upon the class of guild handicraftsmen as a class of small capitalists. It was in essence rather an industrial laboring class, distinguished from the laborers of today by the fact that each worked not for a single employer but for a large number of consumers. The supplying of the material by the customer is common to almost all mediaeval handicrafts; in many instances, indeed, it continued for centuries, even after the customer had ceased

to produce the raw material himself and must buy it. The furnishing of the raw material by the master is a practice that takes slow root; at first it holds only for the poorer customers; but later for the wealthy as well. Thus arises handicraft; but alongside it wagework maintains itself for a long time.

All the important characteristics of handicraft may be summed up in the single expression custom production. It is the method of sale that distinguishes this industrial system from all later ones. The handicraftsman always works for the consumer of his product, whether it be that the latter by placing separate orders affords the occasion for the work, or the two meet at the weekly or yearly market. As a rule the region of sale is local. The customer buys at first hand, the handicraftsman sells to the actual consumer. This assures a proper adjustment of supply and demand and introduces an ethical feature into the whole relationship; the producer in the presence of the consumer feels responsibility for his work.

With the rise of handicraft a wide cleft appears in the process of production. Hitherto the owner of the land has conducted the whole process; now there are two classes of economic activity, each of which embraces only a part of the process of production, one producing the raw material, the other the manufactured article. Handicraft endeavored to bring it about that an article should pass through all its stages of production in the same workshop. In this way needed capital is diminished and frequent additions to price avoided.

The direct relationship of the handicraftsman and the consumer of his products made it necessary that the business remain small. Whenever any one line of handicraft threatens to become too large, new handicrafts split off from it and appropriate part of the sphere of production. This is the mediaeval division of labor, which continually creates new and independent trades.

Handicraft is a phenomenon peculiar to the town. Peoples which, like the Russians, have developed no real town life, know likewise no national handicraft. This also explains why, with the formation of large centralized states and unified commercial territories, handicraft was doomed to decline.

28. Ordinances of the Gild Merchant of Southampton^a

1. In the first place, there shall be elected from the Gild Merchant, and established, an alderman, a steward, a chaplain, four skevins, and an usher. And it is to be known that whosoever shall

^aAdapted from University of Pennsylvania, *Translations and Reprints from the Original Sources of European History*, Vol. II, No. 1, "English Towns and Gilds" (about 1300), pp. 12-17.

be alderman shall receive from each one entering into the Gild fourpence ; the steward, twopence ; the chaplain, twopence ; and the usher, one penny. And the Gild shall meet twice a year : that is to say, on the Sunday next after St. John the Baptist's day, and on the Sunday next after St. Mary's day.

2. And when the Gild shall be sitting no one of the Gild is to bring in any stranger, except when required by the alderman or steward.

3. And when the Gild shall sit, the alderman is to have, each night, so long as the Gild sits, two gallons of wine and two candles, and the steward the same ; and the four skevins and the chaplain, each of them one gallon of wine and one candle, and the usher one gallon of wine.

4. And when the Gild shall sit, the lepers of La Madeleine shall have of the alms of the Gild, two sesters of ale, and the sick of God's House and of St. Julian shall have two sesters of ale. And the Friar's Minors shall have two sesters of ale and one sester of wine. And four sesters of ale shall be given to the poor wherever the Gild shall meet.

5. And when the Gild is sitting, no one who is of the Gild shall go outside of the town for any business, without the permission of the steward. And if any one does so, let him be fined two shillings, and pay them.

6. And when the Gild sits, and any gildsman is outside of the city so that he does not know when it will happen, he shall have a gallon of wine, if his servants come to get it.

9. And when a gildsman dies, his eldest son or his next heir shall have the seat of his father, or of his uncle, if his father was not a gildsman, and of no other one ; and he shall give nothing for his seat. No husband can have a seat in the Gild by right of his wife, nor demand a seat by right of his wife's ancestors.

10. And no one has the right or power to sell or give his seat in the Gild to any man.

19. And no one in the city of Southampton shall buy anything to sell again in the same city, unless he is of the Gild Merchant or of the franchise. And if anyone shall do so and is convicted of it, all which he has so bought shall be forfeited to the king.

20. And no one shall buy honey, fat, salt herrings, or any kind of oil, or millstones, or fresh hides, or any kind of fresh skins, unless he is a gildsman ; nor keep a tavern for wine, nor sell cloth at retail, except in market or fair days ; nor keep grain in his granary beyond five quarters, to sell at retail, if he is not a gildsman ; and whoever shall do this and be convicted shall forfeit all to the king.

21. No one of the Gild ought to be partner or joint dealer in any of the kinds of merchandise before mentioned with anyone who is not of the Gild, by any manner of coverture, or art, or contrivance, or collusion, or in any other manner.

23. And no private man nor stranger shall bargain for or buy any kind of merchandise coming into the city before a burgess of the Gild Merchant, so long as the gildsman is present and wishes to bargain for and buy this merchandise.

24. And anyone who is of the Gild Merchant shall share in all merchandise which another gildsman shall buy or any other person, whoever he is, if he comes and demands part and is there where the merchandise is bought, and also if he gives satisfaction to the seller and gives security for his part.

63. No one shall go out to meet a ship bringing wine or other merchandise coming to the town, in order to buy anything, before the ship be arrived and come to anchor for unloading; and if any one does so and is convicted, the merchandise which he shall have bought shall be forfeited to the king.

29. Ordinances of the White Tawyers⁴

In honor of God, of Our Lady, and of All Saints, and for the nurture of tranquillity and peace among the good folks the Megucers, called white-tawyers, the folks of the same trade have, by assent of Richard Lacer, Mayor, and of the Aldermen, ordained the points under-written.

In the first place, they have ordained that they will find a wax candle, to burn before Our Lady in the Church of Allhallows, near London wall.

And if any one of the said trade shall depart this life, and have not wherewithal to be buried, he shall be buried at the expense of their common box. And when any one of the said trade shall die, all those of the said trade shall go to the vigil, and make offering on the morrow.

Also, that no one of the said trade shall induce the servant of another to work with him in the said trade, until he has made a proper fine with his first master, at the discretion of the said overseers, or of four reputable men of the said trade. And if any one shall do to the contrary thereof, or receive the serving workman of another to work with him during his term, without leave of the trade, he is to incur the said penalty. Also, that no one shall take for working in the said trade more than they were wont heretofore.

⁴Adapted from University of Pennsylvania, *ibid.* (fourteenth century), pp. 23-25.

30. Preamble to the Ordinances of the Gild of the Tailors,
Exeter⁵

To the worship of God and of our Lady Saint Mary, and of St. John the Baptist, and of all Saints: These be the Ordinances made and established of the fraternity of craft of tailors, of the city of Exeter, by assent and consent of the fraternity of the craft aforesaid gathered there together, for evermore to endure.

31. Household Industry in America⁶

BY ROLLO MILTON TRYON

The manual training, domestic science, and household arts courses in our current educational programs are attempting to do what was done in the eighteenth and part of the nineteenth century in the homes. The social pressure that operated in placing these subjects in the schools during the last quarter of the nineteenth century was largely an expression of the feeling that much valuable training had been lost through the decay of the household system of manufacturing—a system that taught the girl, by the time she was twenty, to spin, weave, sew, embroider, knit, darn, crochet, patch, do laundry work well, prepare wholesome meals, make butter, cheese, and candles, and perform other duties connected with good housekeeping; a system that taught the boy to employ the spare moments of his farm life in the manufacture from wood of such farm implements as plows, harrows, sleds, wagons, carts, shovels, flails, swingling knives, handles for spades, axes, hoes, and pitchforks, as well as various aids to domestic comfort, such as brooms, baskets, wooden bowls and bread troughs, butter paddles, cheese hoops, and other kitchen and table utensils; and, finally, a system that engendered such virtues as cheerfulness, happiness, frugality, independence, diligence, perseverance, skill, and self-reliance.

In commenting, in 1848, on the domestic habits of New England women, an elderly lady of Montpelier, Vermont, said that she was firmly convinced that among the changes and revolutions in domestic habits and customs in modern times, so far as the welfare of her own sex was concerned, the change most to be regretted was the one that led to the disuse of the old-fashioned family spinning-wheel. It was her opinion that the movement necessary in drawing out and running

⁵Adapted from University of Pennsylvania, *ibid.* (1466), p. 26.

⁶The passages below are all taken from *Household Manufacture in the United States*, pp. 8, 9, 202-3, 188-89, 224. Copyright by the University of Chicago (1917).

up the thread which required a constant march backward and forward, while the arms were alternatively lifted in the operation, and also that of turning, brought all the muscles into play, and made just the exercise necessary for the development of the human system.

The following articles of apparel are typical ones from a large number mentioned and described as homespun in advertisements of fugitive slaves and servants in New Jersey from 1707 to 1776:

Homespun olive-colored coat, homespun white shirt, brown-colored homespun drugget coat, homespun coarse shirt, homespun striped breeches, brown or black homespun jacket, homespun coat lined with blue, homespun coat of black and white worsted and wool, homespun gray coat lined with orange stuff, dark-colored homespun coat and jacket, homespun gray stockings, suit of dark-gray homespun cloth, suit of light-gray homespun drugget cloth, new homespun blue-striped trousers, dark-brown homespun kersey coat, homespun worsted knit stockings, gray woolen homespun coat, cinnamon homespun kersey coat lined with broad striped homespun, brown homespun jacket, olive-colored homespun breeches and jacket, brown homespun breeches, homespun gown of green woolen yarn, dark-colored homespun broadcloth jacket, short homespun gown and petticoat with red, blue, green, and black stripes, homespun black jacket, white homespun jacket, homespun striped woolen jacket, homespun coat of woolen and cotton lined, moss-colored homespun coat lined with brown homespun, homespun blue and white striped linen jacket and breeches, blue-gray homespun drugget coat, striped homespun waistcoat and breeches.

The following list of articles comprises the domestic staples which the Moravian Brethren proposed to contribute to a store which they opened in 1753 for the benefit of the "family":

Apron skins, powder horns, glue, shoes, slippers, shoe lasts, wooden and horn heel pieces, saddle trees, saddles, horse collars, bridles, halters, saddlebags, girths, pocketbooks, martingales, straps, stockings, caps, gloves, socks, hats, felt caps and felt slippers, spinning-wheels, reels, boxes, guns, tea caddies, writing desks, deer and calf skins dressed for breeches, buckwheat groats, oat groats, malt, millet, dried peaches, dried apples, dried cherries, rusks, gingerbread, iron bands for chests, nails, plows, axes, hatchets, grubbing hose, corn hoes, grindstones, whetstones, punk, flint and steel, pipestems, pipe heads, shirt studs, pewter plates, tea pots, lanterns, tallow candles, soap, starch, hair powder, sealing wax, wafers, tobacco boxes, buttons, buckles, spoons, bowls, shovels, brooms, baskets, wheat flour,

butter, cheese, handkerchiefs, neckcloths, garters, knee straps, linen, white, blue and checked woolens, currant wine, beer, whiskey, tar, potash, turpentine, pitch, lampblack, sulphur matches, vinegar, flaxseed, linseed oil, rape seed and oil, nut oil, oil of sassafras, ammonia, rasped deer's horn, bush tea, medicine chests, brushes, shovels and tongs, chafing dishes, combs, currycombs, glove leather, leather breeches, ropes, blank books, soft soap, rakes, knives, drawing-knives, guitars, violins, tobacco and tobacco pouches, snuff, oil of turpentine, hemp, flax, buckets, milk pails, tubs, pottery, cotton yarn, cord, hatchets, oven forks, linen nets, augers, hammers, pinchers, candlesticks, tinware, chisels, mill saws, homespun, boots, chips, harness, wheelbarrows, wagons, coffeepots, chains, canoes, boards, bricks, roofing tiles, lime, preserves and pickles, quills and slate pencils.⁷

For bedsteads an oak tree that would split well was selected, cut down, and a log about eight feet long taken from the butt and split into such pieces as could be readily shaped into posts and rails. Another log not so long was split into such pieces as, with a slight dressing, made slats. Holes were bored with a tolerably long auger in suitable places in the posts for inserting the rails; two rails were used for each side and about three for each end, the rails answering for head and foot boards. Like auger holes were made in the lower side rails at suitable points for inserting the slats. When properly prepared the bedstead was put together by pressing the rails and slats in the holes prepared for each, thus making a rough but strong high-post bedstead, the posts at the top being tightly held together by rods prepared for the purpose upon which curtains were to be hung. Thus was created a bedstead.⁸

B. PRE-INDUSTRIAL COMMERCE

32. A Definition of Commerce⁹

BY J. DORSEY FORREST

Attempts to study the development of commerce have usually been unsatisfactory because they have failed to distinguish between real commercial activity and the mere external mechanism of ships and roads and travelers. The real history of commerce which will some time be written will give some account of the production which

⁷Reichel (editor), *Memorials of the Moravian Church*, I, 234 f., note.

⁸Duncan, *Old Settlers' Papers*, p. 398.

⁹Adapted from *The Development of Western Civilization*, p. 194. Copyright by the University of Chicago, 1906.

has fed commerce, as well as a description of the routes, and of some actual exchanges which indicate that commerce had actually been going on. Such phenomena of the mechanism of trade are worthy of note, but only as guiding the student to a deeper study of the dynamical phenomena of which these are but surface indications. Real commerce represents a differentiation of function by which the diverse parts of society come into complex and organic relation with one another.

33. The Attitude of the Mediaeval Church toward Commerce¹⁰

BY WILLIAM J. ASHLEY

The teaching of the gospel as to worldly goods had been unmistakable. It had repeatedly warned men against the pursuit of wealth, which would alienate them from the service of God and choke the good seed. It had in one striking instance associated spiritual perfection with the selling of all that a man had that he might give it to the poor. It had declared the poor and hungry blessed, and had prophesied woes to the rich. Instead of anxious thought for the food and raiment of the morrow, it had taught trust in God; instead of selfish appropriation of whatever a man could obtain, a charity which gave freely to all who asked. And in the members of the earliest Christian church it presented an example of men who gave up their individual possessions, and had all things in common.

We cannot wonder that, with such lessons before them, a salutary reaction from the self-seeking of the pagan world should have led the early Christian Fathers totally to condemn the pursuit of gain. It took them further—to the denial to the individual of the right to do what he liked with his own, even to enjoy in luxury the wealth he possessed. "What injustice is there in my diligently preserving my own, so long as I do not invade the property of another?" "Shameless saying!" says S. Ambrose. "My own, sayest thou? what is it? from what secret places hast thou brought it into this world? When thou enterest into the light, when thou camest from thy mother's womb, what wealth didst thou bring with thee? That which is taken by thee, beyond what would suffice to thee, is taken by violence. Is it that God is unjust, in not distributing to us the means of life equally, so that thou shouldst have abundance while others are in want? It is the bread of the hungry thou keep-est, it is the clothing of the naked thou locket up; the money thou buriest is the redemption of the wretched." To seek to enrich one's self was not, simply, to incur spiritual risk to one's own soul; it was

¹⁰Adapted from *An Introduction to English Economic History and Theory* (1894), I, 126-32. Copyright by Longmans, Green & Co.

in itself unjust, since it aimed at appropriating an unfair share of what God had intended for the common use of men. If a man possessed more than he needed, he was bound to give his superfluity to the poor; for by natural law he had no personal right to it; he was only a steward of God.

If, however, to seek to enrich one's self was sinful, was trade itself justifiable? This was a question which troubled many consciences during the Middle Ages. On the one hand the benefits which trade conferred on society could not be altogether overlooked, nor the fact that with many traders the object was only to obtain what sufficed for their own maintenance. On the other hand they saw that trade was usually carried on by men who had enough already, and whose chief object was their own gain: "If covetousness is removed," urges Tertullian, "there is no reason for gain, and, if there is no reason for gain, there is no need of trade." Moreover, as the trader did not seem himself to add to the value of his wares, if he gained more for them than he had paid, his gain, said S. Jerome, must be another's loss; and in any case, trade was dangerous to the soul, since it was scarcely possible for a merchant not sometimes to act deceitfully. To all these reasons was added yet another. The thought of the supreme importance of saving the individual soul, and of communion with God, drove thousands into the hermit life of the wilderness, or into monasteries; and it led even such a man as Augustine to say that "business" was in itself an evil, for "it turns from seeking true rest, which is God."

In the eleventh century began a great moving of the stagnant waters. The growth of towns, the formation of merchant bodies, the establishment of markets—even if they did no more than furnish the peasant and the lord of the manor with a market for their surplus produce—brought men face to face with one another as buyer and seller in a way they had not been before. Hence economic questions, especially such as concerned the relations of seller and buyer, of creditor and debtor, became of the first importance. To deal with these new questions a new jurisprudence presented itself,—the jurisprudence based on the revived study of Roman law. The Roman law, in the finished form in which the codification of Justinian presented it, rested on a theory of absolute individual property which was entirely alien to the usages of early Teutonic peoples, among whom community of ownership, or at any rate community in use, was still a prevalent custom; and it recognized an unlimited freedom of contract, which may have been suitable to the active commerce of the Mediterranean, but was sure to be the instrument of injustice when appealed to in the midst of more primitive social conditions.

With these new dangers before them, churchmen began once more to turn their attention to economic matters, and to meet what they regarded as the evil tendencies of the Roman law, "The principle of the world," by a fresh application of Christian principles. On two doctrines especially did they insist—that wares should be sold at a just price, and that the taking of interest was sinful. They enforced them from the pulpit, in the confessional, in the ecclesiastical courts; and by the time that the period begins of legislative activity on the part of the secular power, these two rules had been so impressed on the consciences of men that Parliament, municipality, and gild endeavored of their own motion to secure obedience to them.

34. The Contribution of the Church to Commerce¹¹

BY J. DORSEY FORREST

A necessary prerequisite of commercial development was the establishment of an efficient agricultural system. In perfecting the agricultural organization the ecclesiastical domains served as models to the smaller lay proprietors. The monasteries depended more on rational organization than on personal power and kept alive the more efficient methods employed by the Romans in earlier days. The monasteries usually established themselves on waste lands, for the prime object of the monks was retirement. After the invasions they had no difficulty in finding waste lands even in regions which had been most highly cultivated. Great saints could live holy lives as hermits; but when masses of men were gathered together, it became necessary for the leaders to lay down rules for practical activity. The poverty from which many of the monks came, the reverence of the church for the Son of the Carpenter, and the necessity of labor for a means of subsistence, all combined to give manual labor a high moral value in the monasteries. Accordingly monastic rules enjoined the duty of manual labor as a moral discipline.

A second prerequisite of commerce was the division of labor and the development of the crafts. In time neighboring lords would give vast domains, with their villeins, to the monasteries in return for prayers. As the monasteries thus grew wealthy, a revolution came in the management of their internal affairs. All had to find a way to divide labor and to make some members of the community mere laborers. In feudal times this division was well advanced. For centuries the monks had kept alive many crafts, and the causes just referred to advanced these both in number and in technique.

¹¹Adapted from *The Development of Western Civilization*, pp. 176-79, 190-94. Copyright by the University of Chicago, 1906.

In spite of the disorder which had troubled Europe from the time of the first invasion, there was never a time when commercial intercourse was entirely wanting. During the period of most complete disorganization the Jews carried on a casual trade in oriental luxuries and handled about all the money that circulated. United by faith and common traditions, in constant touch with coreligionists in other countries, they formed an organic body in the midst of universal dissolution. The very action of the church upon the lay society contributed to their prosperity. The canons of the councils in denying to Christians the right to exact usury assured to the Jews a monopoly of the money business. Through their intimate relations with the Mohammedans, they were able to communicate with the East at a time when no Christian could sail upon the Mediterranean. The church condoned their offenses against Christian morality because their services as money-lenders and dealers in valuables were indispensable. They were found also dispersed throughout the country, and on the domains plied their trade as pawnbrokers among the villages and brokers for the lords. Though the business of the Jews had some importance as a stimulus to greater demands for luxuries, it can hardly be considered a part of the commerce of Europe. Such commodities as spices, perfumes, silks, tapestries, precious stones, and jewelry were of little importance in the social development of Europe.

Preparation for the revival of commerce was made by the Church. The importance of magic made it desirable to transport sacred relics from place to place; and the need of pictorial services required the transportation of church furnishings from Byzantium and Italy to the less advanced communities. For the manufacture of glass and the erection of the earlier buildings artisans themselves had to be imported from the East and the South. There was also a constant intercommunication in certain sections through pilgrimages to noted shrines. When special festivals were held at these shrines, large numbers of pilgrims would be present at the same time. The provisioning of such a company would occasion considerable trade, and peddlars and traders would naturally join the pilgrims. Sometimes the monks were themselves traders. Sometimes men would bring their simple manufactures from domains in the neighborhood. In some instances the important fairs sprang up at these favorite shrines. But, aside from trade, the pilgrimages themselves kept up communication between different points. Again the superstitious awe in which the church was held made it possible for priests and monks and messengers and pilgrims to travel from place to place as neither merchants nor soldiers could do. Thus the commerce of the church and the travel inspired by the church

served to keep open routes which were closed to ordinary travelers, and to bring remote regions into communication with each other.

The episcopal cities were also centers of incipient commercial transactions. Since the bishop did not move from one domain to another to consume the products of each in turn, as the lay nobles did, the products of surrounding manors had to be transported to the residence of the bishop. Thus there was maintained a kind of industrial concentration that might form the basis for new city life. In these various ways the churches and monasteries contributed largely to the commercial development. But they simply prepared society for a revival of commercial activity by keeping up communication and furnishing inns for travelers.

35. Italian Commerce in the Fourteenth Century¹²

BY THOMAS B. MACAULAY

Liberty, partially indeed and transiently, revisited Italy; and with liberty came commerce and empire, science and taste, all the comforts and all the ornaments of life. The Crusades, from which the inhabitants of other countries gained nothing but relics and wounds, brought to the rising commonwealths of the Adriatic and Tyrrhene seas a large increase of wealth, dominion, and knowledge. The moral and geographical position of these commonwealths enabled them to profit alike by the barbarism of the West and the civilization of the East. Italian ships covered every sea. Italian factories rose on every shore. The tables of Italian moneychangers were set in every city. Manufactures flourished. Banks were established. The operations of the commercial machine were facilitated by many useful and beautiful inventions. We doubt whether any country of Europe, our own excepted, has at the present time reached so high a point of wealth and civilization as some parts of Italy had attained four hundred years ago. Historians rarely descend to those details from which alone the real state of a community can be collected. Hence posterity is too often deceived by the vague hyperboles of poets and rhetoricians, who mistake the splendor of a court for the happiness of a people. Fortunately John Villani has given an ample and precise account of the state of Florence in the early part of the fourteenth century. The revenue of the Republic amounted to three hundred thousand florins; a sum which, allowing for the depreciation of the precious metals, was at least equivalent to six hundred thousand pounds sterling; a larger sum than England and Ireland, two centuries ago, yielded annually to Elizabeth. The manufacture of wool alone employed two hundred

¹²Adapted from the essay on *Machiavelli* (1827).

factories and thirty thousand workmen. The cloth annually produced sold, at an average, for twelve hundred thousand florins; a sum fully equal in exchangeable value to two millions and a half of our money. Four hundred thousand florins were annually coined. Eighty banks conducted the commercial operations, not of Florence only but of all Europe. The transactions of these establishments were sometimes of a magnitude which may surprise even the contemporaries of the Barings and the Rothchilds. Two houses advanced to Edward the Third of England upward of three hundred thousand marks, at a time when the mark contained more silver than fifty shillings of the present day, and when the value of silver was more than quadruple of what it now is. The city and its environs contained a hundred and seventy thousand inhabitants.

C. PRE-INDUSTRIAL POLICY

36. Property and Service on the Manor¹³.

Let us institute a brief comparison between the modern industrial system and a simple agricultural system, such as existed in Europe in the Middle Ages and still survives in many respects in those lands from which the greater part of our industrial labor comes. Such a comparison will serve the double purpose of showing the dependence of the problem upon our peculiar organization of industry and of revealing the difficulties of adjustment to a new situation by a laborer fresh from such a simple industrial environment.

In such an agricultural system the position of the laborer was and was not of his own making. It was not in the sense that he was born into a social class, a family, and a fixed industrial position. It was in the sense that his living was pretty much what he through his own efforts made it. By birth it became his privilege and obligation to cultivate a certain plot of ground, to gather his harvest of grain, to pay a fixed rent in kind to his "lord," and to keep the balance for himself. This opportunity he could not surrender; from it he could not be dispossessed. It was for others to dream of fame, of knew little change. For him no complicated nexus of a price scheme fortune, of position, of prestige; he was established in a world that stood between his efforts and his reward. The price at which he sold his services and the prices at which he purchased goods did not have to be considered. For him the sun and the rain, rather than market conditions, his strength and intelligent application, rather than his bargaining ability, determined the measure of his material welfare. In a very real sense he received all that he produced above the

¹³An editorial, 1916.

fixed rental. Quite appropriately he greeted his neighbor in the morning with a remark about the all-important subject of the weather. His modern descendant to be equally appropriate should make market quotations the basis of his morning's greetings.

Economic insecurity, in the modern sense of the term, did not attach to the laborer's position. His personal relations with his "lord," his contact with his "job" rested upon conventions that seem quite "queer" to us. For when we call the "lord" a "property owner" we mean something quite different from the current meaning of the term. He was an owner in the sense that the title was vested in him, that he had general supervision of the land, and that he received a "rent." But he possessed only some of the "equities" which make up the extremely complex institution of "property ownership." He could not employ whom he pleased to work on his land; he could not dictate to the laborers the technique which they should employ; he could not raise rents; and he could not dispossess those who cultivated his land. Clearly some of the equities of ownership belonged to the laborer. In like manner the laborer owned some of the equities in his own labor: when and how he should work was in general left to him; he enjoyed the bountiful harvest which came from his diligent efforts. But certain of the equities of his labor were enjoyed by the lord: on special occasions he had to give of his labor without stint, he could not insist upon lowering his rent, he could not free himself from his "job." Because of these peculiar property arrangements the lord and laborer, the man and his "job," were inseparably linked in a permanent scheme. No consent of either party, no "contract" was necessary to bring them together; custom had accomplished that, and once for all.

If, under this scheme, the laborer lacked personal freedom he was immune to insecurity. If there was no resplendent future before him there was no abyss of misery into which he might fall. Failure to agree on terms never left him without employment. No radical change in technique, in volume of business, or in prices, rendered his store of technical skill a worthless possession, and left him a "man without a job." Sickness did not threaten irreparable ruin; for was he not possessed of property rights of which he could not be stripped? Industrial accident had few terrors in a society that used blunt plows and patient oxen. The seasonal round of work was not injurious to the workman's health and spirits; for the tyranny of the almanac is less severe than that of the clock. If the frugality of his life made consumption quite monotonous, there was at least the compensating advantage of absence of monotony in production. Under the dictates of agrarian institutions such talents as could be used later were in little danger of being prematurely wasted. The equities in

property gave even some security for old age as well as assurance that the premature death or disability of the head of the family would not rob children of their opportunity. If dangers were still left, they were finite, personal, and intelligible; they did not proceed from some dark, obscure, and undiscovered part of an impersonal and soulless machine system.

Like all others the system possessed both insecurity and waste. The former was manifest in the clash of group against group, the raid of a rival group, and the reiterated appearance of flood, drought, and fire. The stern reality of these things make famine, nakedness, and lack of shelter more than vague dreams. But the insecurity was communal rather than individual; it had its root in the exigencies likely to befall production rather than in the vicissitudes of a price system. The latter was manifest in the monotony of the industrial and social system. The lack of variety in goods and services, in occupations and professions, gave little chance for the development of any but a few of the resources of mind and body latent in the population. A narrow caste system, which made opportunity very largely a matter of birth, failed completely in utilizing and conserving the talents of the masses.

To such a simple environment it was easy for the individual to adapt his life. His judgment could be depended upon to make the decisions necessary to his own welfare and that of those dependent upon him. There was no complicated scheme of prices to cloud and bewilder his judgment. The industrial relations of laborer and master were dictated by custom and required no conscious choice. As a consequence laborers did not live a transitory life, being here today and there tomorrow. They belonged to permanent communities and enjoyed a high degree of neighborhood life. Through this the perplexities which were still left in the simple environment was minimized by a set of convictions, religious, industrial, political, and social which prescribed quite rigidly the life which the individual should lead. They were in reality a collection of conventional formulas, revealing the experience of the community for generations as to how things should be done. They were quite sufficient for such ordinary matters as fixing the standard of living, giving moral instruction to the young, inculcating in them habits of industry, and giving them the technical training for the occupations into which they were expected to enter. With such freedom from a large number of judgments and rigid community standards to guide such as had to be made, the individual was not likely to go seriously astray in adapting his life and activities to his community environment. The permanent associations with place and group gave a further help in imparting a sense of futurity and preventing judgments from being

based upon purely the immediate considerations, as is so likely to be the case under the pecuniary system. If the tyranny of community standards placed a discount upon individual initiative and novelty, if it seriously interfered with the development of culture, it at least permitted the individual to rationalize his activities in terms of the system of which he was a part.

37. Solidarity in the Mediaeval Town¹⁴

Town and gild ordinances furnish abundant evidence of a spirit of social solidarity animating industrial legislation which is quite foreign to the modern point of view. There was a determined attempt on the part of the authorities to prevent "regrating," or buying to sell again at a higher price; "forestalling," or outwitting fellow-dealers by purchasing goods before they came into open market; and "engrossing," or the modern cornering the market. Gild documents are replete with statutes the purpose of which was to secure to the consumer the use of the best raw materials, the exercise of care and skill on the part of the workman, and full measure. While instances could be multiplied, the custom in the city of Chester that "a man or woman making false measure and being arrested, compounded for it with four shillings"; the custom in the same town of punishing with the ducking pool the maker of bad ale; and the statute of the spurriers of London to the effect that "no one of the trade of spurriers shall work longer than from the beginning of the day until curfew rings out of the church of St. Sepulcher," are typical examples of legislation of this kind. But perhaps, to the modern mind, the strangest of all the customs was the levying of export duties and the frequent prohibition of the export of certain articles, usually foodstuffs. The purpose of such taxes and prohibition is implicit in the frequently appended clause, "because of the scarcity of the commodity in the city of late." A careful examination of the evidence shows that it was framed in the interest of producers-consumers by men who were not sufficiently used to the intermediate money term to separate the two parts of the economic process.

An explanation of the attitude implicit in this legislation is simple when the conditions of life in the mediaeval town are kept clearly in mind. These laws were enacted, not because men of the Middle Ages were less acquisitive than modern men, or were more imbued with the spirit of Christianity, but because of the peculiar exigencies of mediaeval town life. The mediaeval town, settled by alien

¹⁴An editorial, 1911.

merchants, villeins from nearby manors, emancipated or runaway serfs, and fortune seekers from far and near, began its career with no sharply drawn class lines and few local traditions. It was the product of a new industrial movement which threatened to rob the first and second estates of the social and economic pre-eminence which they had enjoyed for centuries. The nature and aspirations of town life were incompatible with the customs of feudalism. There was an inevitable opposition between the larger industrial entity which bourgeoisie life made necessary and the smaller unit in which alone the spirit of feudalism could survive. There developed consequently a hostility between the old and the new, and it became necessary to fight for existence. From such a common struggle a spirit of solidarity necessarily emerged.

An influence even stronger was the economic dependence of the town. It will not be denied, I think, that where the conditions of existence are severe, a strong feeling of common interests grows up within the group. Such conditions existed in the mediaeval town. It must be admitted that the transition from the Roman system of slavery to the mediaeval system of serfdom represented a great economic gain. The serf, freed from gang work and thrown on his own resources, with rents fixed by immutable custom, and with the assurance of a right to enjoy all the surplus produced above the stipulated rent, held a position that gave promise of efficiency. He was in a position to produce an agricultural surplus, a necessary antecedent to the development of the town. But the real gain in the transition from slavery to serfdom was potential and not actual. It is very doubtful whether the serf of the twelfth century was producing as much as the slave in the palmy days of the empire. To make this potential surplus actual, the wants of the agricultural laborer had to be developed. Despite the principle of the indefinite expansibility of wants, this process was slow, depending upon the chance visits of traveling merchants, the fairs, and the slow development of the towns. Consequently the precariousness of its food supply made the threat of starvation a very real one in the town. The result was necessarily legislation which sought to conserve the food supply.

It is true that differentiation of occupations characterized the town almost from the very beginning. Even in the days of the early gild merchant individual interests were not completely identical with communal interests. But the technical methods of the gildsman were simple and direct, necessitating the use of very little capital, and causing industry to be carried on on a small scale. The

relationship of the master workman to the members of his establishment was personal. Generally speaking goods were made to order. The artisan knew the eccentricities of his customers, and was anxious to humor them. The industrial process was a short time one, goods were generally consumed in the neighborhood in which they were produced, and if any flaw in material or defect in workmanship was discovered, the producer would likely hear of it. Under such conditions the social ownership of productive goods only gradually gave way to the ever-enlarging area of individual property rights. Hence the two processes of production and consumption were practically identified in the mind of the townsman.

This breadth of viewpoint in domestic relations can best be understood by its contrast with the townsman's conduct of foreign or out-of-town trade. The current code of business ethics allowed inferior materials and poor workmanship to be used in the production of articles for the foreign market. The interests of the foreigner were not protected by the customary, or just, price; and if, by hook or crook, the townsman could put off short weight on the foreigner, so much the better. In short, here the element of personality was minimized; and, for that reason, production, the social means, became to the artisan an individual end. In this attitude toward foreign trade is to be found the beginning of the entrepreneur viewpoint. As the industrial entity increased in size and complexity, as the time of the productive process was lengthened, and as business relations became more personal, it is quite natural that the gildman's attitude toward foreigners should come to be his attitude toward all customers.

Yet the influence of mediaeval thought in promoting the spirit of solidarity is not to be wholly overlooked. The town was born in an atmosphere saturated with the spirit of mediaeval Catholicism. Brotherhood and equality had long been preached by the church. Vertical, or interclass equality was never realized, either in chivalry or in the church. But many mediaeval institutions presented at least a fair semblance of horizontal, or intraclass equality. It was under the influence of ecclesiastical precedents that the towns established their new organizations. A study of the characteristic features of the guilds shows how great was the number of things for which they were indebted to religious institutions and how few were the real innovations springing out of the newly created urban life. Influenced by such habits of thought and freed from the obstacles opposed by an already stratified society, the merchant guild legislated with the end in view of placing social interests above class or individual interests. Intellectual conditions and the pressure of economic and political necessity prevented the formal sacrifice of social weal to individual acquisition.

38. Articles of the Spurriers of London¹⁵

In the first place—that no one of the trade of Spurriers shall work longer than from the beginning of day until curfew rang out at the Church of St. Sepulchre, without Newgate; by reason that no man can work so neatly by night as by day. And many persons of the said trade, who compass how to practice deception in their work, desire to work by night rather than by day; and then they introduce false iron, and iron that has been cracked, for tin; and also they put gilt on false copper, and cracked. And further—many of the said trade are wandering about all day, without working at all at their trade; and then when they have become drurk and frantic, they take to their work, to the annoyance of the sick, and all their neighborhood, as well by reason of the broils that arise between them and the strange folk who are dwelling among them. And then they blow up their fires so vigorously, that their forges begin all at once to blaze to the great peril of themselves and of all the neighborhood around. And then, too, all the neighbors are much in dread of the sparks, which so vigorously issue forth in all directions from the mouths of the chimneys in their forges. By reason thereof it seems unto them that working by night should be put an end to, in order such false work and such perils to avoid: and, therefore, the Mayor and the Aldermen do will, by the assent of the good folks of the said trade, and for the common profit, that from henceforth such time for working, and such false work made in the trade, shall be forbidden.

39. Mediaeval Tricks of Trade¹⁶

BY BERTHOLD VON REGENSBURG

The first are ye that work in clothing, silks, or wool or fur, shoes or gloves or girdles. Men can in nowise dispense with you; men must needs have clothing; therefore should ye so serve them as to do your work truly; not to steal half the cloth, or to use other guile, mixing hair with your wool or stretching it out longer, whereby a man thinketh to have gotten good cloth, yet thou hath stretched it to be longer than it should be, and maketh a good cloth into worthless stuff. Nowadays no man can find a good hat for thy falsehood; the rain will pour down through the brim into his bosom. Even such deceit is there in shoes, in furs, in curriers' work; one

¹⁵Adapted from University of Pennsylvania (1345), *op. cit.*, pp. 21-22.

¹⁶Adapted from a thirteenth-century sermon, translated in Coulton, *A Mediaeval Garner*, pp. 348-54. Published by Constable & Co., London.

man sells an old skin for a new, and how manifold are thy deceits no man knoweth so well as thou and thy master the devil.

The second folk are such as work with iron goods. They should all be true and trustworthy in their office, whether they work by the day or by the piece. When they labor by the day, they should not stand all the more idle that they may multiply the days at their work. If thou laborest by the piece, then thou shouldest not hasten too soon therefrom, that thou mayest be rid of the work as quickly as possible, and that the house may fall down in a year or two. Thou shouldest work at it truly, even as it were thy own. Thou smith, thou wilt shoe a steed with a shoe that is naught; and the beast will go perchance a mile thereon when it is already broken, and the horse may go lame, or a man be taken prisoner, or lose his life. Thou art a devil and an apostate.

The third are such as are busied with trade; we cannot do without them. They bring from one kingdom to another what is good cheap there, and whatever is good cheap beyond the sea they bring to this town, and whatever is good cheap here they carry over the sea. Thou, trader, shouldst trust God that He will find thee a livelihood with true winnings. Yet now thou swearest so loudly how good thy wares are, and what profit thou givest the buyer thereby; more than ten or thirty times takest thou the names of the saints in vain—God and all His saints, for wares scarce worth five shillings! That which is worth five shillings thou sellest, maybe, sixpence higher than if thou hadst not been a blasphemer of our Lord, for thou swearest loud and boldly: "I have been already offered far more for these wares": and that is a lie. And if thou wilt buy anything from simple folk, thou turnest all thy mind to see how thou mayest get it from them without money, and weavest many lies before his face; and thou biddest thy partner go to the fair also, and goest then a while away and sayest to thy partner what thou wilt give the man for his wares, and biddest him come and offer less. Then the simple country fellow is affrightened, and will gladly see thee come back. "Of a truth," thou sayest, "by all the saints, no man will give thee so much for this as I!" Yet another would have given more.

The fourth are such as sell meat and drink, which no man can disregard. Wherefore it is all the more needful that they shouldst be true and honest therein; for other deceit dealeth only with earthly goods, but this deceit with a man's body. If thou offerest measly or rotten flesh that thou hast kept so long until it be corrupt, then art thou guilty perchance of one man's life, perchance of ten. Or if thou offerest flesh that was unwholesome before the slaughter, or unripe of age, which thou knowest well and yet givest it for sale,

so that folk eat it into their clean souls which are so dear a treasure to Almighty God, then dost thou corrupt the noble treasure which God hast buried in every man; thou art guilty of the blood of these folk. The same say I of him who selleth fish. So are certain inn-keepers and cooks in the town, who keep their sodden flesh too long, whereof a guest eateth and falleth sick thereafter for his life long. So also do certain others betray folk with corrupt wine or mouldy beer, unsodden mead, or give false measure, or mix water with the wine. Certain others, again, bake rotten corn to bread, whereby a man may lightly eat his own death; and they salt their bread which is most unwholesome.

The fifth folk are such as till the earth for wine or corn. They should live truly toward their lords and toward their fellows, and among each other; not plough one over the other's landmark, nor trespass nor reap beyond the mark, nor feed their cattle to another's harm, nor betray their fellows to the lord. Ye lords, ye deal sometimes so ill with your poor folk, and can never tax them too high; ye would fain ever tax them higher and higher. Thou boor, thou bringest to the town a load of wood that is all full of crooked billets beneath; so sellest thou air for wood! And the hay thou layest so cunningly on the wagon that no man can profit thereby; thou art a right false deceiver.

The sixth folk are all that deal with medicine, and these must take great heed against untruth. He who is no good master of that art, let him in no wise undertake it, or folks' blood will be upon his head. Take heed, thou doctor, and keep thyself from this as thou lovest the kingdom of heaven. We have murderers enough without thee to slay honest folk.

So are some men deceivers and liars like the craftsmen. The shoemaker sayeth, "See, there are two most excellent soles," and he hath burned them before the fire. And the baker floods his dough with yeast, so that thou hath bought mere air for bread. And the huxter pours sometimes beer or water into his oil; and the butcher will sell calves' flesh at times, saying: "It is three weeks old," and it is scarce a week old.

40. The Control of Industry in the Gild Period¹⁷

BY L. F. SALZMANN

Broadly speaking, the control of industry may be said to be either external, by parliamentary or municipal legislation, or internal, by means of craft gilds. These two sections again admit of subdivision according as their objects are the protection of the consumer, the

¹⁷Adapted from *English Industries in the Middle Ages* (1913), pp. 200-237.

employer, or the workman. Nor can we entirely ignore legislation for purpose of revenue—subsidies and customs.

If a large number of parliamentary enactments were protective of the producer, as for instance the prohibition in 1463 of the import of a vast variety of goods from silk ribbands to dripping-pans, and from razors to tennis balls, including such incompatibles as playing-cards and sacring bells, yet still more were they protective of the consumer. For one thing, of course, a single act prohibiting certain imports might protect a dozen classes of manufacturers, while the denunciation of one particular species of fraud would probably lead ingenious swindlers to invent a succession of others, each requiring a separate act for its suppression. Sentimental admirers of the past are likely to imagine that the mediaeval workman loved a piece of good work for its own sake and never scamped a job. Nothing could be farther from the truth. The mediaeval craftsman was not called a man of craft for nothing! He had no more conscience than a plumber, and his knowledge of ways that are dark and tricks that are vain was extensive and peculiar. The subtle craft of the London bakers, who, while making up their customer's dough, stole a large portion of the dough under their customers' eyes by means of a little trap-door in the kneading board and a boy sitting under the counter, was exceptional only in its ingenuity. Cloth was stretched and strained to the utmost and cunningly folded to hide defects, or a length of bad cloth would be joined on to a length of superior quality; inferior leather was faked up to look like the best, and sold at night to the unwary; pots and kettles were made of bad metal which melted when put on the fire, and everything that could be weighed or measured was sold by false measure.

From the customer's point of view the regulation of prices was perhaps the most important problem. The price of raw material was too dependent upon supply and demand to admit of much regulation. The local authorities, civic and manorial, took constant measures to prevent the artificial enhancement of what we may call raw foodstuffs, corn, fish, and meat, the "regrator and forestaller," that is to say, the middleman who intercepted supplies before they reached the market and forced the prices up for his own sole benefit, being universally regarded as a miscreant. The economists of that period had not grasped the fact that the cleverness shown in buying an article cheap and selling the same thing without any further expenditure of labor, dear, if done on a sufficiently large scale, justifies the bestowal of the honor of knighthood or a peerage. In the case of manufactured foodstuffs, such as bread and ale, the price was automatically fixed by the price of the raw material, and in general prices of manufactures were regulated by the cost of the materials.

The principle that the craftsman should be content with a reasonable profit and not turn the casual needs of his neighbors to his own benefit is constantly brought out in local regulations.

The question of prices, which were thus so largely composed of a varying sum for material, and a fixed sum for workmanship, is very intimately connected with the question of wages. The mediaeval economist seems to have accepted the Ruskinian theory that all men engaged in a particular branch of trade should be paid equal wages. There were, of course, grades in each profession, as master or foreman, workman, and assistant or common laborer, but within each grade the rate of payment was fixed. Wages were at all times paid on the two systems of piecework and time, and the hours were, as a rule, long. For the building trade at Beverley in the fifteenth century work began in summer at 4:00 A.M. and continued until 7:00 P.M.; at 6:00 A.M. there was a quarter of an hour's interval for refreshment, at 8:00, half an hour for breakfast, at 11:00 an hour and a half to dine and sleep, and at 3:00 half an hour for further refreshment. During the winter months the builders worked from dawn till dusk, with half an hour for breakfast at 9:00 o'clock, an hour for dinner at noon, and a quarter of an hour's interval at 3:00. Wages, of course, when paid by the day, varied in winter and summer. But, against the long hours, we have to set off the comparative frequency of holidays.

For the protection of the consumer a very thorough system of search or inspection was established. The search of weights and measures, provisions, cloth, and tanned leather usually belonged to the mayor or equivalent borough officer, or in county districts to the manorial lord, but usually with other manufactures, and very often in the case of cloth and leather, the mayor deputed the duty of search to members of the craft gilds elected and sworn for that purpose. They could inspect the wares either in the workshops or when they were exposed for sale, and seize any badly made articles. The forfeited goods were either burnt or given to the poor, and the offending craftsman fined, set in the pillory, or, if an old offender, banished from the town. To facilitate tracing the responsibility for bad work, weavers, fullers, hatters, metal-workers, tile-makers, and other craftsmen, including bakers, were ordered to put their private trademarks on their wares. This process must have been much simplified by the custom so prevalent of segregating or localizing the trades, so that the goldsmiths dwelt in one quarter, the shoemakers in another, etc.

As the trades were kept each to its own district, so was the craftsman restricted to his own trade. By a law issued in 1364 artificers were obliged to keep to one "mystery" or craft, an exception

being made in favor of women acting as brewers, bakers, carders, spinners, and workers of wool and linen and silk—the versatility of woman, the “eternal amateur,” being thus recognized some five centuries and a half before Mr. Chesterton rediscovered it. Later statutes forbade shoemakers, tanners, and curriers to infringe on each other’s province. The general tendency was to keep trades, and more especially the allied trades, separate, in order presumably to avoid the growth of “combines” and monopolies. For this reason fishmongers and fishermen were forbidden to enter into partnership in London, because the dealers, knowing the needs of the city, would be able to manipulate supplies and keep up prices.

How far the desire to restrict output was at the bottom of regulations forbidding the employment of more than a strictly limited number of apprentices and journeymen, and how far such prohibitions were inspired by fear of the monopolization of labor by capitalists it is difficult to say. Probably, the dread of the capitalist was the chief incentive for such regulations, which are very numerous. The same principle of fair play between employers led to the ordaining of heavy penalties for taking away another man’s servant, or employing any journeyman who had not fulfilled his engagement with his previous master, and to the strict prohibition of paying more than the fixed maximum wages. This last provision was sometimes got over by the master’s wife giving his servant extra gratuities and gifts. So also the use of the cheap labor of women was as a rule regarded with disfavor. The fullers of Lincoln were forbidden to work with any woman who was not the wife or maid of a master, and the “bracers” or makers of braces, of London, in 1355, laid down “that no one shall be so daring as to set any woman to work in his trade, other than his wedded wife or his daughter.” Of child labor we hear very little, one of the few notices being an order on the children’s behalf made, suitably enough, by Richard Whittington, in 1398, that whereas some “hurlers” (makers of fur caps) send their apprentices and journeymen and children of tender age down to the Thames and other exposed places, amid horrible tempests, frosts, and snows, to scour caps, to the very great scandal of this city, this practice is to cease at once.

Too much attention must not be given to the quarrelsome side of the guilds, for they were essentially friendly societies for mutual assistance. One of the rules of the London leather-dressers was that if a member should have more work than he could complete and the work was in danger of being lost, the other members should help him. A still more essential feature of the guilds was their grant of assistance to members who had fallen ill or become impoverished through no fault of their own. Nor did their benevolence end with

the poor craftsman's death, for they made an allowance to his widow and celebrated masses for the repose of his soul.

41. Labor on the Southern Plantations¹⁸

Let us consider briefly the nature of the institution of chattel slavery as it existed upon the southern plantation before the Civil War. The welfare of the slave, like that of the agricultural laborer considered above, depended largely upon the nature of "property rights." Under the plantation system all the equities alike in land and in laborers, so far as they were individually owned, belonged to the "master." It was his sole right to determine what work should be done, when it should be done, to prescribe conditions of employment, and to supervise the work in every particular. Upon him devolved the costs incident to the maintenance of the laborers; to him alone belonged the whole product. The master's control over the slaves extended to their children.

This arrangement made the immediate welfare of the slave a matter of status. It was determined by the requirements of physical efficiency. Because of the master's pecuniary interest in him, the slave received, if not a wage, at least nourishing food in sufficient quantity, clothing at least sufficient for comfort in a warm climate, and a roof over his head that kept out the rain. Since the state of the mind has a great influence upon work, rest, recreation, holidays, and amusements were offered to him. The only occupation in which he could profitably be used was agriculture. This furnished an out-of-doors life, conducive to health, and physically, even if not mentally, stimulating. The seasonal character of the work offered periods of partial rest. Only rarely could there be a succession of "long days." The very nature of the crops gave variety from month to month and prevented the routine monotony of industrial toil. Industrial accident was at a minimum; for by reason of long and intimate companionship the negro had become immune to the mule, the most dangerous mechanism upon the plantation.

But the interest of the master in the welfare of the slave was more than immediate. He exercised over him the right of ownership, which economically was nothing else than a proprietary interest in the whole capitalized value of the future services which the slave might be expected to yield. The master's pecuniary interest in realizing this future value acted as a powerful incentive in securing the conservation of the slave's strength and resources. The health of so valuable a piece of property was guarded by prohibitions against overwork. Care was taken not to use him in dangerous and unhealthy

¹⁸An editorial (1916).

employments. It was an established custom in Mississippi to hire whites to work in the malaria-infected river bottoms, reserving the slaves for the more salubrious employment of the uplands. If perchance the black fell sick, he had the best of medical assistance and nursing. Generally feelings of humanity, which have their best chance for expression in a small group society, particularly if personal relations are of long standing, could be depended upon to secure provision for the slave's old age.

The same pecuniary interest was a guaranty of the conservation of the resources of the young. For them security and opportunity, training and immunity from premature exploitation, did not depend upon the economic fortunes of the "bread winner." Should he become partially disabled, totally dependent, or die, their personal fortunes would not be affected thereby. They were the master's property and much too valuable to be used up before they could render services of importance under the plantation system. The same property interest brought it about that they were taught habits of industry and honesty, and were given so much of technical training as they were likely to need later. If they were denied "book learning," the system required that they should have such consolations as inhere in the Christian religion.

Still the system left the larger problems of the conservation of resources unsolved. It reconciled itself to the use of slave labor for a single purpose, thus allowing a very small number of the negro's latent powers to be developed. The owners kept in their own hands control of technique, thus inhibiting any advance which might come from the activity of the slave's intellect. The use of laborers in gangs broke effectively the nexus of work and reward, thus furnishing no proper incentive to an intelligent doing of the day's work. Closely associated was a failure to develop and utilize the moral values inherent in personal responsibility. It is quite unnecessary to mention the subsidiary waste of the labor of others, of materials and tools of accumulated wealth, and the exhaustion of the soil, all of which were necessary compliments of this waste of human resources.

D. PRE-INDUSTRIAL RIGHTS AND DUTIES

42. The Classic Statement of the Organic Nature of Society¹⁹

BY ST. PAUL

For as the body is one, and hath many members, and all the members of that one body, being many, are one body: so also is Christ. For by one Spirit are we all baptized into one body, whether we be

¹⁹ From I Cor. 12:12-31.

Jews or Gentiles, whether we be bond or free; and have been all made to drink unto one Spirit. For the body is not one member, but many. If the foot shall say, Because I am not the hand, I am not of the body; is it therefore not of the body? And if the ear shall say, Because I am not the eye, I am not of the body; is it therefore not of the body?

If the whole body were an eye, where were the hearing? If the whole were hearing, where were the smelling? But now hath God set the members every one of them in the body, as it hath pleased him. And if they were all one member, where were the body? But now they are many members, yet but one body. And the eye cannot say unto the hand, I have no need of thee: nor again the head to the feet, I have no need of you.

Nay, much more those members of the body, which seem to be more feeble, are necessary. And those members of the body which we think to be less honorable, upon these we bestow more abundant honor; and our uncomely parts have more abundant comeliness. For our comely parts have no need: but God hath tempered the body together, having given more abundant honor to that part which lacked: that there should be no schism in the body; but that the members should have the same care one for another. And whether one member suffer, all the members suffer with it; or one member be honored, all the members rejoice with it.

Now ye are the body of Christ, and members in particular. And God hath set some in the church, first apostles, secondarily prophets, thirdly teachers, after that miracles, then gifts of healing, helps, governments, diversities of tongues. Are all apostles? are all prophets? are all teachers? are all workers of miracles? have all the gifts of healing? do all speak with tongues? do all interpret? But covet earnestly the best gifts: and yet show I unto you a more excellent way.

43. The Gospel of Stewardship²⁰

BY THOMAS AQUINAS

Exterior goods have the character of things useful to an end. Hence human goodness in the matter of these goods must consist in the observation of a certain measure as is done by a man seeking to have exterior riches in so far as they are necessary to his life according to his rank and condition. And, therefore, sin consists in exceeding this measure, and trying to acquire or retain riches beyond the due limit.

²⁰Adapted from *Summa Theologica*, Quaest, CXVIII; LXXIX, art. 1, vi et viii (1265-1274).

Covetousness may involve immoderation in two ways: in one way immediately as to the receiving or keeping of them, when one acquires or keeps beyond the due amount; and in this respect it is directly a sin against one's neighbor, because in exterior riches one cannot have superabundance without another being in want, since temporal goods cannot be simultaneously possessed by many. The other way is in interior affections, in immoderate love, or desire of, or delight in, riches. In this way it is a sin of man against himself by the disordering of his affection. It is also a sin against God by the despising of eternal good for temporal.

The Philosopher says: "It belongs to the magnanimous man to want nothing or hardly anything." This, however, must be understood in human measure, for it is beyond the condition of man to have no wants at all. For every man needs first of all the divine assistance, and secondly also human assistance, for man is naturally a social animal, not being self-sufficient for the purpose of life.

Magnanimity regards two objects, honor as its matter, and some good deed in view as its end. Goods of fortune co-operate to both these objects. For honor is paid to the virtuous, not by the wise only, but by the multitude. Now the multitude make most account of the external goods of fortune; consequently greatest honor is paid by them to those who have these things. In like manner goods of fortune serve as instruments to acts of virtue, because by riches there is opportunity for action. Clearly the goods of fortune contribute to magnanimity. Virtue is said to be self-sufficient, because it can exist even without these external goods; nevertheless, it needs these external goods to have more of a free hand in its working.

Solicitude for temporal things is unlawful if we seek temporal things as our final goal. Temporal things are subject to man that he may use them for his necessity, not that he may set up his rest in them, or be idly solicitous about them.

44. The Bill of Rights²¹

And thereupon the said Lords Spiritual and Temporal, and Commons, pursuant to their respective letters and elections, being now assembled in a full and free representation of this nation, taking into their most serious consideration the best means of attaining the ends aforesaid, do in the first place (as their ancestors in like case have usually done), for the vindicating and asserting their ancient rights and liberties, declare:

²¹A part of the great constitutional document passed by Parliament in October, 1689, *Statutes of the Realm*, 1 W. & MS. 2, c. 2.

1. That the pretended power of suspending of laws, or the execution of laws, by regal authority, without consent of Parliament, is illegal.

2. That the pretended power of dispensing with laws, or the execution of laws by regal authority, as it hath been assumed and exercised of late, is illegal.

3. That the commission for erecting the late Court of Commissioners for Ecclesiastical Causes, and all other commissions and courts of like nature, are illegal and pernicious.

4. That levying money for or to the use of the Crown, by pretense of prerogative, without regard of Parliament, for longer time or in other manner than the same is or shall be granted, is illegal.

5. That it is the right of the subjects to petition the King, and all commitments and prosecutions for such petitioning are illegal.

6. That the raising or keeping a standing army within the kingdom in time of peace, unless it be with consent of Parliament, is against law.

7. That the subjects which are Protestants may have arms for their defense suitable to their conditions, and as allowed by law.

8. That election of members of Parliament ought to be free.

9. That the freedom of speech, and debates or proceedings in Parliament, ought not to be impeached or questioned in any court or place out of Parliament.

10. That excessive bail ought not to be required, nor excessive fines imposed; nor cruel and unusual punishments inflicted.

11. That jurors ought to be duly impaneled and returned, and jurors which pass upon men in trials for high treason ought to be freeholders.

12. That all grants and promises of fines and forfeitures of particular persons before conviction are illegal and void.

13. And that for redress of all grievances, and for the amending, strengthening, and preserving of the laws, Parliament ought to be held frequently.

45. The Theory of Natural Right

a) *The Declaration of Independence*²²

When in the course of human events its becomes necessary for one people to dissolve the political bonds which have connected them with another, and to assume among the powers of the earth the separate and equal station to which the laws of Nature and Nature's God entitles them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation.

²² Passed by the Continental Congress. Popularly dated July 4, 1776.

We hold these truths to be self-evident, that all men are created equal ; that they are endowed by their Creator with certain inalienable rights ; that among these are life, liberty, and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed. That, whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it, and to institute a new government, laying its foundations on such principles and organizing its powers in such form as shall seem to them most likely to effect their safety and happiness.

*b) The Rights of Men and of Citizens*²³

The representatives of the people of France, formed into a National Assembly, considering that ignorance, neglect, or contempt of human rights are the sole causes of public misfortunes and corruptions of government, have resolved to set forth in a solemn declaration those natural, imprescribable, and inalienable rights (and do) recognize and declare, in the presence of the Supreme Being, and with the hope of his blessing and favor, the following sacred rights of men and of citizens :

I. Men are born and always continue free and equal in respect to their rights. Civil distinctions therefore can only be founded upon public utility.

II. The end of all political associations is the preservation of the natural and imprescribable rights of man, and these rights are liberty, property, security, and resistance of oppression.

*c) The American Bill of Rights*²⁴

I. Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof ; or abridging the freedom of speech or of the press, or the right of the people peaceably to assemble and to petition the government for a redress of grievances.

II. A well-regulated militia being necessary to the security of a free state, the right of the people to keep and bear arms shall not be infringed.

III. No soldier shall, in time of peace, be quartered in any house, without the consent of the owner, nor in time of war but in a manner to be prescribed by law.

²³ Issued by the National Assembly of France, 1789.

²⁴ The first nine amendments to the Constitution of the United States, proposed by the first Congress on September 25, 1789, and ratified by the required three-fourths of the states during the next two years.

rv. The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no warrants shall issue but upon probable cause, supported by oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

v. No person shall be held to answer for a capital or otherwise infamous crime, unless on a presentation or indictment of a grand jury, except in cases arising in the land and naval forces, or in the militia, when in actual service in time of war or public danger; nor shall any person be subject for the same offense to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself; nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use without just compensation.

vi. In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favor, and to have the assistance of counsel for his defense.

vii. In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any court of the United States, than according to the rules of the common law.

viii. Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

ix. The enumeration in the Constitution of certain rights shall not be construed to deny or disparage others retained by the people.

d) Some Addenda

xiii. Sec. i.²⁵ Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction.

xiv. Sec. i.²⁶ All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No state shall

²⁵ Adopted as part of the Constitution of the United States, December 18, 1865.

²⁶ The Fourteenth Amendment to the Constitution of the United States, of which the paragraph above is section 1. was declared adopted July 21, 1868.

make or enforce any law which shall abridge the privileges or immunities of citizens of the United States ; nor shall any State deprive any person of life, liberty, or property, without due process of law ; nor deny to any person within its jurisdiction the equal protection of the laws.

xv. Sec. 1.²⁷ The rights of citizens of the United States to vote shall not be denied or abridged by the United States or by any state on account of race, color, or previous condition of servitude.

The right of citizens of the United States to vote shall not be denied or abridged by the United States or by any state on account of sex.²⁸

²⁷Adopted as part of the Constitution of the United States, March 30, 1870.

²⁸ Submitted to the states for ratification by Congress, June 4, 1919.

III

THE INDUSTRIAL REVOLUTION

Our historical sketch requires for its completion a study of that later aspect of social development which we so often and so strangely call the "industrial revolution." This movement has done far more than shower upon us a series of "great inventions" or bless mankind with a new technique. Appearing gradually and working indirectly, as well as directly, it has affected our whole world of thought, of action, and of institutions; it has modified our economics, our politics, our ethics, and even our religion; it has changed in nature, number, and form our baffling problems; it has written itself large in our culture. In view of its many-sidedness and the gradual way in which it has effected and is still effecting its changes, it seems amiss either to call it "industrial" or to refer to it as a "revolution."

We look in vain for its beginnings. We know that early mediaevalism could have given us nothing which, even erroneously, could be called an "industrial revolution." Before it could appear the mediaeval scheme of values had to be transformed. Desires for earthly things had to be freed from their unethical taint; a wholesome respect for the world had to be built up; man had to acquire greater reverence for his own powers and functions; people had to learn to conform to the things of this world if they would transform it. This change in the attitude toward life and its problems was intimately associated with several other lines of development. There appeared a new interest in nature as nature, a new philosophy, a new mathematics, and a new physics. These laid the foundation of the new technique. Many discoveries of new lands were made, adding tremendous resources calling for utilization. There was brought to Europe gold alike serviceable for the furtherance of the new money economy and the more rapid accumulation of capital. Colonial ventures led to an extension of the market and a great increase in the size of the industrial unit. This necessitated a reorganization of the "factory" and a more extensive use of the principle of the division of labor. The last produced a minute specialization which both served to create an incentive for the invention of new machines and furnished an opportunity for their use. Together with accumulated capital and the necessary scientific knowledge this new organization led to the new technique. Even this is not the whole story; for in England the movement was hastened by conditions peculiar to the country. The indented coastline, by cheapening transportation and enlarging the market, must have been a factor of prominence. It has been suggested, too, that an institution, seemingly as extraneous as primogeniture, played its part by forcing into mercantile pursuits those whose veins contained the adventurous blood of nobility.

The course of the "revolution" has been as comprehensive as its antecedents. The changes in technique are most clearly appreciated. Even here the tendency toward a "machine process" embracing a large part of the industrial system is generally overlooked, as is also the seemingly antagonistic fact that up to the present the conquest of the older system by the machine has been partial and incomplete. On the economic side, the increasing importance of capital, the rise of the "factory system," the disappearance of "domestic industry," the trend toward large-scale production, the separation of the laborer from the "tools of his trade," and increasing class differentiation based upon differences in industrial functions are most clearly seen. These aspects of the movement raise the questions of artificially controlling the tendencies inherent in the development of the machine system; the determination

of the size of the industrial entity, the social control of large aggregates of wealth such as railroads and capitalistic monopolies, the elimination of economic insecurity which alike attends labor and capital, the equities of the distribution of wealth, and the urban enigmas of overcrowding, housing, sanitation, vice, and poverty. They reveal, too, just over the horizon the more ominous questions of property inheritance, and the reconstruction of industrial society.

The questions reveal but a single aspect of the influence of the industrial revolution. Political, ethical, religious, and social questions have all been involved in the general transformation of life and values. In many cases they are inseparably connected with economic problems. For instance, when the machine took over the work of the home, the latter became a new institution. One writer insists that the home, and woman as well for all that, has not yet adapted itself to the new society. We all complain that the "machine process" has entered our colleges, and that college instruction is being "standardized" and college graduates "tagged." We all, at least occasionally, complain of the inability of law and religion alike to adjust themselves to modern industrialism. Our friends in ethics tell us that the newer industrial life is effecting startling changes in our standards of social and individual ethics.

Are we sure that we have reached the end of the "revolution"? Most likely we are in a second stage of the process where problems are vastly different from those met in the first stage which occupied the larger part of the nineteenth century. Perhaps there will be a third stage unlike the second. Clearly the end of the new technology is not yet. The technique first introduced has not as yet produced its full complement of social results. Quite as important, the new technique is being rapidly extended over a wider and wider area, constantly affecting the fortunes of people less and less adapted to it. Its extension preserves a frontier where machine culture is constantly pushing back a civilization founded on a less complex technique. The reaction upon our system is fraught with grave consequences.

A. THE ANTECEDENTS OF THE REVOLUTION

46. English Industry on the Eve of the Revolution¹

BY ARNOLD TOYNBEE

I must ask you to transport yourselves in imagination to England as it was a century and a quarter ago. Then the farms were small and the method of cultivation primitive. The old system of common cultivation was still to be seen at work in a large number of parishes in the midland counties. Rotation of crops was only imperfectly understood; the practice of growing winter roots and artificial grasses was only slowly spreading. "As for the sheep," said an old Norfolk shepherd, speaking of a still more recent period, "they hadn't such food provided for them as they have now. In winter there was little to eat except what God Almighty sent for them, and when the snow was deep on the ground they ate the ling or died off." The cotton industry, which now supports more than half a million of persons, was then oppressed by Parliament as a

¹ Adapted from "Industry and Democracy," *Lectures on the Industrial Revolution* (1881), pp. 179-88.

possible rival to older industries, and was too insignificant to be mentioned more than once, and then incidentally, by Adam Smith. The iron industry, with which the material greatness of England has during the present century been so conspicuously associated, was gradually dying out. Much of the ore was still smelted by charcoal in small furnaces blown by leather bellows worked by oxen. Not cotton and iron, but wool was considered, in those days, the great pillar of national prosperity. There were few people who doubted but that the ruin of England would follow the decay of this cherished industry. It was only philosophers like Bishop Berkeley, who, going very deep into matters, ventured to ask whether other countries had not flourished without the woolen trade.

To show you the external conditions of industrial life in the middle of the last century, I cannot, I think, do better than give a short description of the way in which wool was manufactured in the neighborhood of Leeds. The business was in the hands of small master-manufacturers who lived, not in the town, but in homesteads in the fields, and rented little pasture-farms. Every master worked with his own hands, and nearly all the processes through which the wool was put—the spinning, the weaving, and the dyeing—were carried on in his own house. Few owned more than three or four looms, or employed more than eight or ten people—men, women and children. This method of carrying on the trade was called the domestic system. "What I mean," said a witness, "by the domestic system is the little clothiers living in villages or detached places, with all their comforts, carrying on business with their own capital; every one must have some capital, more or less, to carry on his trade, and they are in some degree little merchants as well as manufacturers, in Yorkshire." A spinning-wheel was to be found in every cottage and farmhouse in the kingdom, a loom in every village.

The mention of this fact brings me to another point in the economic history of this period—the extremely narrow circle in which trade moved. In many districts the farmers and laborers used few things which were not the work of their own hands, or which had not been manufactured a few miles from their homes. The poet Wordsworth's account of the farmers' families in Westmoreland, who grew on their own land the corn with which they were fed, spun in their own homes the wool with which they were clothed, and supplied the rest of their wants by the sale of yarn in the neighboring market town, was not so inapplicable to other parts of England as we might at first imagine. If the inland trade was thus circumscribed, we shall not be surprised to find that our foreign trade was, compared with its present dimensions, on a tiny scale.

Though there were periods of keen distress, there was no such thing as long-continued widespread depression of trade. Overproduction was impossible when the producer lived next door to the consumer, and knew his wants as well as the country shoemaker of today knows the number of pairs of boots that are wanted in his village. And when foreign trade was so insignificant, wars and rumors of wars could exercise but little influence over the general circle of commerce.

The expense of carriage was enormous—it cost forty shillings to send a ton of coal from Manchester to Liverpool—and it was as slow as it was expensive. Adam Smith tells us that it took a broad-wheeled wagon, drawn by eight horses, and attended by two men, three weeks to carry four tons of goods from London to Edinburgh. The roads—even the main roads—were often impassable. A famous traveler describes how the high road between Preston and Wigam had, even in summer, ruts four feet deep, floating with mud; and in many parts of the country the principal means of communication were tracks used by pack horses. Was it not natural that, shut up within such narrow confines, unstimulated by wide markets and varied intercourse, manufactures advanced but slowly and inventions were rare? Man's life moved on from generation to generation in a quiet course which would seem to us a dull, unvarying routine.

The majority of employers were small masters—manufacturers like those already described, who, in ideas and habits of life, were little removed from the workmen, out of whose ranks they had risen, and to whose ranks they might return once more. There were, of course, even then capitalist employers, but on a small scale; nor was their attitude to their workmen very different from that of the little masters in the same trade. Few of the small masters of whom I have spoken did not work with their own hands; and it was the common thing for them to teach their apprentices the trade. Both the apprentices, for whose moral education he was responsible, and the journeymen were lodged and boarded in the master's house. Between men living in such close and continuous relations the bonds were naturally very intimate. Nor were these bonds loosened when the journeyman married and lived in his own house. The master knew all his affairs, his particular wants, his peculiarities, his resources, the number of his children, as well as he did before. If the weaver was sick, the master lent him money; if trade was slack he kept him on at a loss. "Masters and men," said an employer, "were in general so joined together in sentiment, and, if I may be permitted to use the term, in love to each other, that they did not wish to be separated if they could help it." The workmen corroborated

the assertion. "It seldom happens," said a weaver, "that the small clothiers change their men except in case of sickness and death." It was not uncommon for a workman to be employed by the same master for forty years; and the migration of laborers in search of work was small compared with what goes on in the present day. A workman would live and die on the spot where he was born, and the same family would remain for generations working for the same employers in the same village. Under such conditions the master busies himself with the welfare of the workman, and the education of his children; the workman eagerly promotes the interests of the master, and watches over the fortunes of the house. They are not two families but one.

There is yet one other characteristic of industry in those days which remains for us to scrutinize. This is the network of restrictions and regulations in which it was entangled and which exercised an important influence over both its inner and its outer life. Most conspicuous were the combination laws—laws which made it illegal for laborers to combine to raise wages, or to strike. "We have no Acts of Parliament," says Adam Smith, "against combining to lower the price of work, but many against combining to raise it." In another passage he describes a strike as generally ending, "in nothing but the punishment or ruin of the ringleaders." Not only was combination to raise wages illegal, but emigration from parish to parish in search of work was rendered almost impossible by the law. These laws, which cruelly hindered the workman in his efforts to secure a livelihood, were bad; but there were other laws directly affecting the position of the workman as a citizen which were worse. I select one example. The law of master and servant made breach of contract on the part of an employer a civil offense, on the part of the laborer a crime.

Except as a member of a mob, the laborer had not a shred of political influence. The power of making laws was concentrated in the hands of the landowners, the great merchant princes, and a small knot of capitalist-manufacturers who wielded that power in the interests of their class, rather than for the good of the people. Nor is the famous assertion of the great economist that, whenever Parliament attempted to regulate differences between masters and their workmen, its counsellors were always the masters, unsupported by facts. It receives lively illustration from the pen of a pamphleteer of the period, who remarks with an air of great naturalness and simplicity that "the gentlemen and magistrates ought to aid and encourage the clothier in the reduction of the price of labor, as far as is consistent, with the laws of humanity, but necessary for the preservation of foreign trade." The position of the workman was

a transitional one. He halted half-way between the position of the serf and the position of the citizen; he was treated with kindness by those who injured him; he was protected, oppressed, dependent.

47. Geographical Discovery and the Revolution²

BY WILLIAM CUNNINGHAM

In the latter part of the eighteenth century there was a burst of inventive genius in Great Britain. Many improvements were rapidly introduced, and the useful arts, as practised from time immemorial, were revolutionized in a few years. This was no mere accident, but was at least partly due to the fact that the conditions of economic life had become more favorable to such change than they had ever been before. The age of geographical discovery had paved the way for the age of invention; England had succeeded in surpassing each of the rivals who during a century and a half had striven with her for the commercial supremacy of the world; her predominance afforded the English inventors of the eighteenth century unexampled opportunities for turning their talents to account.

Holland was no longer the carrier of the world; her manufactures had declined in importance. In France over-centralization destroyed the initiative of the people and injured all branches of industry and agriculture. English shipping had increased, and distant markets for national wares had been opened. The East Indies were willing to accept unlimited supplies of cotton cloth; and the continent of Europe and the colonies of America were largely dependent on Great Britain for woolen goods; manufacturing could be conducted on a larger and larger scale without immediate risk of glutting the widespread demand by overproduction. So long as commerce had been organized as an intercivic affair, or on the old regulated lines of exclusive privilege in limited markets, there could not have been any such stimulus to the invention and introduction of machinery as the world-wide markets naturally afforded.

But more than this: the mines of the New World and the successful commerce with the East had given England the material means for the formation of large amounts of capital, which were now available for employment. There had been much admirable ingenuity among seventeenth century engineers and mechanics, but they were hampered by want of capital; their projects could not be carried out. In the eighteenth century London had become the monetary center of the world, and it was no longer impossible to venture on the long and costly experiments that were often needed

² Adapted from *An Essay on Western Civilization in Its Economic Aspects*, II, 225-28. Published by Cambridge University Press, 1900.

to render some mechanical improvement a financial success. We are not detracting from the genius of Watt or Arkwright if we say that they seized and made the most of opportunities, such as no other men had ever had before. Had they lived under the conditions which were in vogue in preceding centuries, both as to demand for goods and the supply of capital, these great inventors could only have enjoyed the meager distinction which future generations accord to men who were in advance of their times.

The great geographical discoveries were the result of long-continued and conscious effort, directed to a clearly understood aim; great expeditions had to be organized to sail on unknown seas and establish friendly relations with distant potentates. Explorers were forced to wait on courtly patronage and royal initiative; but mechanical invention has run a different course. The coincidence of the two phenomena, a world-wide demand and a large supply of capital, enabled humble and unknown men to push on step by step; political prestige and elaborate organization were not so essential as in schemes for colonization; mechanical skill and personal ingenuity had at last obtained their chance. The new industrial era, which the age of invention brought in its train, has offered a free field and given the greatest rewards to individual enterprise. It is commonly said that the physical advantage of England in the possession of enormous supplies of coal and iron side by side, have enabled her to outdistance her rivals, not only in commerce but in industry; still, the proximity and quantity of coal and iron do not in themselves account for her success completely; in the case of such inventions as Arkwright's they do not account for it at all. The favorable conditions which English manufacturers enjoyed, in the eighteenth century, and the reliance on individual enterprise which had been traditional in Great Britain, were not unimportant factors in rendering this island the workshop of the world.

B. THE NATURE AND SCOPE OF THE REVOLUTION

48. Technology and the Revolution³

The industrial revolution was no sudden transformation of the structure of industry and the organization of social life. It is an unfortunate emphasis upon the "great inventions" and their immediate consequences which has caused us to lose sight of the broad scope and varied content of the movement. This emphasis has too frequently conveyed the impression that the sudden appearance upon the scene of industrial action of several very wonderful machines, born of the inventive genius of the great men of old, wrought

³ An editorial (1915).

a great change, substituting an entirely new and more efficient system for the archaic one which had done service before. This view commits the double error of regarding the movement as industrial and as a revolution.

It was not industrial; for its antecedents cannot, any more than its consequences, be pent up in any narrow causal formula to which the term industrial can be properly applied. An attempt to find its beginning forces one into excursions into fields as complex as human life itself. Certainly the common-sense scheme of social values, the estimates placed by people upon their institutions, their aspirations, and their instruments cannot be excluded from the catalogue of antecedents. The change in such a scheme was one of the most potent of the factors leading to this great movement. Clearly the mediaeval scheme of values would have inhibited the invention of the steam engine. It would not even have permitted the consideration of the problem the partial answer to which the steam engine became. For such a society the high values were in things of the "other world." To it nature was not a thing worth conquering; if it had been, man was impotent to effect the conquest. Improvement in industrial technique demanded placing a higher value upon life in this world, upon the material means toward its fulness, and upon man's dependence upon nature's bounty and laws. It demanded, too, that the individual develop confidence in the soundness of his worldly desires and in his capacity to do things worth while. When an adequate account of this great movement is written, one of its most important chapters will trace the development of this new scheme of values.

But, passing over the larger social aspects of the subject, even industrially the movement was hardly a revolution. This is evidenced by a study of the transition from the craft to the machine régime. Under the former, population had been adjusted to the available supply of natural resources; and the existing technique had adapted itself to both. In fact so harmoniously did the three fit together that the craft technique was just adequate to supply the customary wants of a slowly increasing population by making use of the whole of the available natural resources. In view of its adequacy, this technique, almost perfect, was in little danger of being replaced.

However, the gradual revelation of the natural resources of the New World, or the "economic discovery of America," created an acute technical problem, whose solution promised alike individual fortune and social prosperity. Its significance lies in the fact that it disturbed the happy harmony between population, technique, and natural resources. Resources were all of a sudden tremendously

increased. Being potential wealth, they promised fortune to him who could turn them into finished commodities. The craft technique, however, was incapable of handling so large an order. At best, it could but leave large quantities of resources untouched. Yet the almost infinite expansibility of human wants, particularly in view of the inability of population mechanically to assume a given size, demanded that the largest possible quantity of raw material be converted into usable goods. Consequently the problem of finding a new and adequate technique became one of increasing social importance during the seventeenth and eighteenth centuries. In terms of an instinctive and semiconscious struggle to solve this problem much of the intellectual history of these centuries becomes intelligible.

Properly speaking, the problem included two closely related problems, that of technique proper, and that of industrial organization. The first of these presented grave difficulties. The craft technique could, of course, suggest, and parts of it could even be taken over. But, for all that, its development was complete; its primary basis was individual skill; and certainly in view of its present high development, it was impossible to establish a more adequate technique by a further development of human dexterity. Furthermore, the development of skill pointed to delicacy, quality, refinement. Since these were not what was wanted, the new technique had to start from new beginnings. Its demands were cruder than those made upon the older system. Its problem was to find a means of handling immense quantities of raw material in the rough, and of turning out large quantities of crude products. It involved, too, handling these masses rapidly, which necessitated finding a source of power other than human labor. The first requirement imposed the necessity of the exact handling of materials; the second involved devising a scheme for throwing the burden of the work upon nature. The first imposed an understanding of the laws of quantity; this made necessary the development of mathematics, and rendered it a basic science of the new technique. The second rendered imperative a study of the phenomena of expansion, heat, motion, etc.; this necessitated the further development of the science of physics, or natural philosophy, and prescribed it as antecedent to technique. How diligently and successfully these preliminary studies were made, the histories of mathematics and of physics in the seventeenth and eighteenth centuries abundantly attest. It is significant that chemistry and biology, which were not needed for the new technique which found expression in the industrial revolution, did not receive their significant development until later. How closely developments in physics and mathematics were related to the general social movement is evidenced by the expression of rationalism and empiricism in the philosophy

of these centuries, culminating in the naturalistic philosophy of the later eighteenth century. It is of note, too, that many of the philosophers of the period were deeply interested in mathematics, several making notable contributions to the subject. These sciences had to do the basic work, before significant technical development could occur. Technology had to bide its time.

For a time the development of industrial organization distanced that of pure technique. Gradually England built up a foreign trade for its finished commodities. This was greatly increased by the over-seas demand. In proper economic order the larger market led to an increase in the size of the industrial establishment, and the latter, to a thorough reorganization. The object of this was to subdivide tasks, and thus to reap the advantage of increased individual efficiency due to a more minute specialization of labor. The expected advantage of a decrease in costs was realized. Further it has an ulterior, and perhaps more permanent, effect in supplying the last condition necessary to the appearance of the new technique. Specialization is nothing else than the breaking up of a production operation into its elements: it is a differentiation of productive acts, the isolation of a unit of the process. It tends to make the work of the laborer the monotonous repetition of a single routine act. The task, consequently, assumes just the form in which it can better be done by some mechanical contrivance, that repeats the single necessary motion, than by a laborer. It was in just this way that factory reorganization constantly threw off new isolated tasks and visualized the need of the machine. How important this is as a necessary antecedent of the machine is indicated by the use of the term "industrial revolution" as synonymous with factory reorganization by a recent writer, who contends that the machine was not the cause, but the result, of the industrial revolution.

The very introduction of the machine led to a tendency toward the extension of its use. Four aspects of this tendency are noteworthy. First, the introduction of machines in industrial establishments is followed by a lack of harmony between the machine work and the auxiliary craft work in the establishment. Secondly, there is a like incompatibility between the machine operations carried on in an industrial establishment and the craft operations which are antecedent or subsequent to it in the industrial process. Friction in such cases leads to an extension of the machine system to complementary activities within or without the factory. Thirdly, complete harmony, as Marx has pointed out, requires the application of the machine method to the making of machines. Fourthly, the application of machinery to transportation demands, for anything more than its

most meager use, a thoroughgoing localization of industry and a great enlargement of the market for particular commodities.

In these subsequent developments industrial organization and the machine technique have evidenced a constant interdependence. An enlargement of the market increases the size of the factory; this leads to a further specialization in industrial acts; in this certain parts of the larger process are isolated and are taken over by machines; this leads to a decrease in costs and to a lower price for the goods; and this leads to an enlargement of the market and to a repetition of the cycle. One point as well as another marks the beginning of this endless round; logically there is no absolute cause and no absolute effect. But we must remember that as the cycle tends again and again to run its course, its convolutions become narrower; for even such a magical sequence is itself subject to the law of diminishing returns. Just as, if we attempt to find the beginning of the industrial revolution, we get lost in a complicated past; so, if we look for its end, we lose ourselves in industrial change whose completion is not as yet.

Great as the change in technique has been, the conquest of the machine has by no means been complete. To call the present system the machine system is to overlook the great fields which the machine has failed to subdue. In practically all agriculture the larger part of production is still under the control of the craft; some agrarian work the machine has hardly touched. Professional and clerical work, as well as a large part of commercial work, knows as yet little of the machine. In country towns and small cities the crafts still survive. Even in the larger industrial centers the small establishment and handwork loom much larger in total than at first would appear. Even in the largest and best organized industrial establishments large oases, as it were, of the older system are left. It is perhaps true that the influence of the machine reaches far beyond the physical fact, and that it exercises an overlordship over the habits and lives of all. But this overlordship is partial and incomplete. The lives and habits of the great majority are still more immediately affected by the older craft which directly affects their work than by the influence of the newer and more brilliant technique.

49. The Comprehensiveness of the Revolution⁴

BY J. H. CLAPHAM

No region of Europe remained altogether unaffected by that long series of economic developments which has changed the face and

⁴Adapted from chap. xxiii, "Economic Change," in *A Cambridge Modern History*, X, 727-39. Copyright by the Cambridge University Press and the Macmillan Co., 1907.

profoundly affected the structure of modern society. It was no mere industrial revolution; its story is not a list of inventions or a biography of inventors. Nor is it simply the story of capital and capitalistic production. Side by side with mechanical invention, the rising power of capital, the extension of economic freedom, and the expansion of international trade went an astonishing growth in population and a partial introduction of the methods and results of exact science into economic affairs. The distinctive mark of economic history during this period is to be found, not in any change or group of changes, but rather in the coincidence of many types of change and the rapidity with which some of these types developed. Everywhere there was movement, but the causes of the movement were infinitely varied.

The whole eighteenth century had been an age of steady industrial development and of great commercial activity. Intercourse among the nations was more frequent and more free than ever before. The more or less scientific and comparative study of natural resources was now no new thing. Imitation of superior foreign methods in agriculture, commerce, and the arts, was keenly pursued. There was an accelerating accumulation of capital. Banking, the necessary prerequisite to investment and the organ of highly developed commerce, had made conspicuous progress.

Trade was cutting its own channels, wherever government would permit. In the more advanced countries it had refused, long before the middle of the eighteenth century, to confine itself to fairs and markets, after the mediaeval fashion.* It had become an everyday matter, had ceased to be a thing of times and seasons.

A widespread care for the improvement of internal means of communication, combined with an ever-growing international trade, had quickened the pulse of economic life. In Holland, Italy, and even bankrupt France, the work went on. In Great Britain the task of improving river navigation, reconstructing roads, and cutting navigable canals was in full swing in the seventies. Because of excess of tolls elsewhere, Britain alone was able to make full use of the work of the road and canal builders.

England exemplified the close connection which must always exist between improvement in the means of transport, the concentration of population, and a progressive agriculture. Where the cultivator works only to supply his own needs he rarely escapes from the crushing compulsion of traditional methods. The demand of the town and roads are essential if there is to be a rapid movement on the land. In England the growth of London, to which most of the new roads led, furnished a main driving force. Decline in com-

mon field husbandry was associated in Great Britain with free and rational methods and with spontaneous agricultural progress.

The similar series of revolutionary inventions toward the close of the century fell upon prepared soil. In all the western nations there existed some mining and manufacturing on a large scale, and many trades in which the handworkers were to a considerable extent dependent on the capitalist employer. Large and small industrial enterprises were everywhere encouraged by the governments. The progress in organization along industrial lines was due mainly to the fact that industrial establishments worked for export and so were brought under the influence of a commercial system already organized on capitalistic lines.

A right instinct has selected the invention of spinning machinery and the perfection of the steam engine as the chief industrial events of the later eighteenth century. The first led to the reorganization of what had long been the greatest group of industries; the second furnished motive power for both new and old mechanical processes. But they were only the most important links in a long chain of improvements which freer industry, increasing skill and capital, expanding commerce, and a more scientific handling of technical problems, introduced into various branches of manufacture. In almost all branches of industry England evolved and applied fresh methods of production. Of great significance for the general progress of manufacturing was the increased production of raw iron. Of even greater significance was the establishment, during the first forty years of the nineteenth century, of mechanical engineering as the organized capitalistic industry, upon which all other industries were beginning to depend.

The cotton trade occupies an unique position in the general movement. It was young; in the eighteenth century its various parts had been but imperfectly organized; and, consequently, it was adaptable. The wool-working trades on the contrary were old, highly organized, and in certain districts most conservative. It is in no way surprising therefore that machinery and steam were more slowly introduced in them than in the cotton trade. Wool and flax and cotton spinning on the wheel died as the machine gained ground. Cotton, an exotic, had never been spun extensively outside the actual manufacturing districts. As a result the work passed much more quickly than that of spinning wool into the mills.

In fact few trades remained untouched by the general advance in technique and the movement toward a more capitalistic organization. To the steady improvement of manufacturing processes were added the new and expensive motor power, better and more complex machines, and the new knowledge of the natural sciences.

Trades ancillary to those of spinning and weaving, such as calico-printing, bleaching, and dyeing, were refashioned. Machinery and chemistry began to influence the ancient and conservative crafts of tanning and leather-working. In pottery-making, in printing, in brewing, in glass-making, and in a score of other industries, methods were revised and the scale of operations for the individual firm extended. The power-driven machine took hold even of simple crafts like carpentry and shoemaking. In coal-mining the combined effects of the new power, the new needs, and the new knowledge were conspicuous. It was in the mines that steam had first been used for pumping. Yet all these things were but small beginnings compared with the developments of the later nineteenth century.

The system of transportation consequent upon the changes mentioned was not developed until well in the nineteenth century. Turn-pikes tended to become more numerous and to be better laid and better graded. Work on harbors and estuaries and docks was undertaken concurrently with that on roads. Canals were constructed. The Napoleonic wars witnessed the beginnings, the peace the utilization of steam transport both on land and sea. It was in the year of Waterloo that a steamer first made the passage from London to Glasgow. Yet progress was slow. In fact the second quarter of the nineteenth century was not really an age of steam navigation. On land a more real and rapid revolution occurred; but it remained incomplete in the early forties. The railway found the reform of the old means of transport still unfinished. The electric telegraph, which was joined with the railway to create the modern market, had hardly passed the experimental stage; and the shortsighted critics who could treat the railway as a mere nuisance or a novel luxury had but recently been silenced.

C. THE NEW INDUSTRIALISM

50. The Function of Capital⁵

BY J. DORSEY FORREST

Before the revolution capital had little significance except in agriculture and commerce. Such simple tools and machines as were used in manufacturing were the property of the workmen themselves, and consequently had no such social importance as modern capital has. Except for the introduction of the great mechanical devices and the application of steam power, capital could never have assumed the tremendous importance which it has attained. The

⁵ Adapted from *The Development of Western Civilization*, pp. 331-38. Copyright by the University of Chicago, 1906.

function of capital, then, is the same in kind as it was before the beginning of machine industry, but the quantitative difference is so great as to constitute "capitalism" a virtually new phenomenon.

The immensity of modern industrial undertakings necessitates the employment of the surplus wealth of the entire community. No small company of men can furnish the requisite amount of capital. It is demanded in such gigantic quantities that it cannot be supplied by the managers of industry, nor even by those more conspicuous capitalists who manipulate stocks and shape policies. These very wealthy men may own a large share of the whole; well-to-do people who take no active part in business management also own a large share; while the better class of artisans likewise supply hundreds of millions of capital, especially of that floating portion which is supplied through the banks for the payment of their own wages and the purchase of materials. Modern capitalistic production is essentially co-operative.

The wide ownership of the means of production is an indication of the social character of production. Practically all of the available wealth of society is now directed to productive uses. If a completely socialistic scheme could be carried out, it would be necessary, unless society should confiscate all private property now held, to obtain the capital from those who are now furnishing it. If public bonds should be given to the present capitalists, it is difficult to see how the new system would differ materially from the present one. In short, there has been developed, along with this great industrial system, a banking and credit system through which all wealth not reserved for consumption may be made available for production. Before the industrial revolution, banking was of very minor importance. At present the enormous banking interests of all civilized countries and the equally important credit arrangements by which capital may easily be turned into the industries which need it, make possible the employment of the resources of the whole society in the production of the goods desired by society.

The individual is compelled to serve society in caring for his own interests by turning back into the productive processes much of the profit derived from invested capital or managerial ability. The incomes of the wealthy are largely turned back to productive purposes, making possible the enlargement of plants, the employment of more laborers, the increase of production, the cheapening of prices. In many directions the consuming capacity of the individual, rich or poor, is limited. Extravagant consumption is possible to a certain extent, and is, perhaps, a growing evil. But the total waste of the rich is probably a small item which, if saved and distributed throughout the whole society, would be of little consequence. The chief

use which the wealthy capitalist can make of the income of his capital is to add it to his capital and employ it in the production of still larger quantities of the goods of common consumption. The evil of the possession of great wealth lies rather in the unworthy social prestige and opportunity for corrupt use which its possession gives to the rich than in the greater amount of goods which the rich consume. The evils connected with capitalism should not blind us to the real efficiency of our present social system in harmonizing individual and social interests by controlling all surplus wealth in the interests of society.

51. The Factory System^a

BY CARL BÜCHER

The factory system organizes the whole process of production; it unites various kinds of workers, by mutual relations of control and subjection, into a compact and well-disciplined body, brings them together in a special business establishment, provides them with an extensive and complex outfit of the machinery of production, and thereby immensely increases their productive powers. Just as in an army corps ready for battle, troops of varied training and accoutrement—infantry, cavalry, and artillery regiments, pioneers, engineers, ammunition columns, and commissariat—are welded into one, so under the factory system groups of workers of varied skill and equipment are united and enabled to accomplish the most difficult tasks of production.

The secret of the factory's strength for production thus lies in the effective utilization of labor. To accomplish this, it takes a peculiar road, which at first appears circuitous. It divides as far as possible all the work necessary to a process of production into its simplest elements, separates the difficult from the easy, the mechanical from the intellectual, the skilled from the rude. It thus arrives at a system of successive functions, and is enabled to employ simultaneously and successively human powers of the most varied kind—trained and untrained men, women and children, workers with the hand and head, workers possessing technical, artistic, and commercial skill. The restriction of each individual to a small section of the process effects a mighty increase in the volume of work turned out. A hundred workmen in a factory accomplish more than a hundred independent master craftsmen, although each of the latter understands the whole process, while none of the former understands more than a small part of it.

^a Adapted from *Industrial Evolution*, pp. 173-76, translated by S. Morley Wickett. Copyright by Henry Holt & Co., 1900.

The machine is not the essential feature of the factory, although the subdivision of work just described has, by breaking up labor into simple movements, multiplied the application of machinery. Its application attained its present importance only when men succeeded in securing a motive power that would work unintermittently, uniformly and ubiquitously, namely, steam. An example will illustrate. In 1787 the canton of Zurich had 34,000 male and female hand-spinners producing cotton yarn. After the introduction of English spinning machines a few factories, employing one-third the former number of workers, produced an even greater quantity of thread. What is the explanation? The machine? But was not the former spinning-wheel a machine? Certainly it was, and a very ingenious one. Machine was thus ousted by machine. Or better, the entire spinning process had been decomposed into its simplest elements, and perfectly new operations had arisen for which even immature powers could in part be utilized.

In the subdivision of work originate these further peculiarities of factory production—the necessity of manufacturing on a large scale, the requirement of a large capital, and the economic dependence of the workman.

Finally, its large fixed capital assures to factory work greater steadiness in production than was possible under other systems. The manufacturer must go on producing, because he fears loss of interest and shrinkage in the value of his fixed capital, and because he cannot afford to lose his trained body of workmen.

52. The Machine Process¹

BY THORSTEIN VEBLEN

In its bearing on modern life and modern business, the "machine process" means something more comprehensive and less external than a mere aggregation of mechanical appliances. The civil engineer, the mechanical engineer, the mining expert, the industrial chemist—the work of all these falls within the limits of the modern machine process. The scope of the process is larger than the machine. Many agencies which are not to be classed as mechanical appliances have been drawn into the process, and have become integral factors in it. Wherever manual dexterity, the rule of thumb, and the fortuitous conjectures of the seasons have been supplanted by a reasoned procedure on the basis of a systematic knowledge of the forces employed, there the mechanical industry is to be found, even in the absence of intricate mechanical contrivances. It is a question of the

¹ Adapted from *The Theory of Business Enterprise*, pp. 5-19. Copyright by Charles Scribner's Sons, 1904.

character of the process rather than a question of the contrivances employed. Chemistry, agricultural, and animal industries, as carried on by modern methods and in due touch with the market, are to be included in the modern complex of mechanical industry.

Not one of the processes carried on by the use of a given outfit of appliances is independent of other processes going on elsewhere. Each draws upon and presupposes the proper working of many other processes of a similar mechanical character. Each of the processes in the mechanical industries follows some and precedes other processes in an endless sequence, into which each fits and to the requirements of which each must adapt its own working. The whole concert of industrial operations is to be taken as a machine process, made up of interlocking detail processes, rather than as a multiplicity of mechanical appliances each doing its particular work in severalty. The whole makes a more or less delicately balanced complex of sub-processes.

Looked at in this way the industrial process shows two well-marked general characteristics: (*a*) the running maintenance of interstitial adjustments between the several sub-processes or branches of industry; and (*b*) an unremitting requirement of quantitative precision, accuracy in point of time and sequence, in the proper inclusion or exclusion of forces affecting the outcome, in the magnitude of the various physical characteristics, weight, size, density, etc., of the materials handled as well as the materials used. This requirement of mechanical accuracy and nice adaptation to specific uses has led to a gradual enforcement of uniformity, to a reduction to staple grades and staple character in the materials handled, and to a thorough standardizing of tools and units of measurement. Standard physical measurements are the essence of the machine régime.

Standardization has outrun urgent industrial needs and has penetrated every corner of the mechanical industries. Modern communities show an unprecedented uniformity in legally adopted weights and measures. As a matter of course tools and the various structural materials used are made of standard sizes, shapes, and gauges. The adjustment and adaptation of part to part and of process to process has passed out of the category of craftsmanlike skill into the category of mechanical standardization. Modern industry has little use for, and can make little use of, what does not conform to the standard. This latter calls for too much of craftsmanlike skill, reflection, and individual elaboration, and is therefore not available for economic use in the processes. Irregularity is itself a fault in any item, for it brings delay, and a delay at any point means a more or less far-reaching and intolerable retardation of the comprehensive industrial process at large.

The materials and moving forces of industry are undergoing a like reduction to staple kinds, styles, grades, and gauges. The like is true of finished products. As regards the mass of civilized mankind, the idiosyncrasies of the individual consumers are required to conform to the uniform gradations imposed upon consumable goods by the comprehensive mechanical processes of industry. Because of this it follows that the demand for goods settles upon certain defined lines of production which handle certain materials of definite grade, in certain, somewhat invariable, forms and proportions. Standardization means economy at nearly all points of the process of supplying goods, and at the same time it means certainty and expedition at nearly all points in the business operations involved in meeting current wants. It also reduces the interdependence of business to more definite terms. Machine production also leads to a standardization of services.

By virtue of this concatenation of processes the modern industrial system at large bears the character of a comprehensive, balanced mechanical process. To an efficient working of this industrial process at large, the various constituent sub-processes must work in due coördination throughout the whole. Any degree of maladjustment in some degree hinders its working. Similarly, any detailed process or industrial plant will do its work to full advantage only when due adjustment is had between its work and the work done by the rest. The more fully a given industry has taken on the character of a mechanical process, the more urgent is the need of maintaining proper working arrangements with other industries.

53. The New Domestic System^a

BY HERBERT J. DAVENPORT

So long as industry held its place in the home—down, that is, to the close of the handicraft era—even the palace and the castle retained their share of industrial activity. Under the supervision of the lady-mistress, the spinning maiden and the weavers were at their tasks. In truth each great dame was a lady in the strict and early sense of the word, a bread-dispenser, the mistress of an extended and active and intricately organized domestic activity—a serious and absorbing and difficult function for which the training was arduous and in which, in the actual doing, the tests of efficiency were manifest and severe.

But now, with the complete establishment of the typically modern organization of industry, have arrived fundamental changes in

^aAdapted from an unpublished address entitled "The Economics of Feminism," 1914.

the organization of the home—changes to which no adequate readjustments have as yet been devised. The flax and the hemp are no longer there for preparation. The spinning has migrated to the factory. The weaving is done by the great machines. The cutting and the making of garments have departed. The butter is churned at the creamery. More and more the bakeries are furnishing us with our bread. Gas and electricity leave no room for candle-making, or even for the filling and the care of lamps. The jam, the pickles, and the preserves we buy of the grocer. There are no more festoons of dried apples in the attic. The smoking of the ham and the bacon the packer does for us, along with the killing and the cleansing. There is no longer any leaching of ashes or boiling of soap to be done in the backyard. The steam laundry cleans and irons for us, and fades out and wears out for us, the garment which the factory has provided for ready use. The electric sweeper cleans our floors, the while that the day laborer runs it, and the dry-cleaner and the pantatorium care for our suits and our gowns. The mother no longer teaches her children at the knee, sending them instead to the tax-paid employee of the schools.

Yet somehow, with all its occupations gone, the home still retains its exterior seeming and organization; and somehow also is so busy a place that, if it conform at all to the standard and ideal of American life, it requires an ever-larger array of housemaids and nurse girls. Still our women folk grow worn and tired with its burdens, and, if the housemaid fails, even desperate. Ill health, dyspepsia, and nervous breakdown are increasingly feminine phenomena. Along with it all, a strange accompaniment, there are fewer and fewer children to be reared as the time of the mother ought to be more. Race suicide confronts our modern societies.

It is evident that the machine industry and the cheapened processes of production have taken away from women in large part their fundamental economic functions. Things have grown too cheap to be done by the old domestic time-consuming methods. As mere matters of dollars and cents production can take place in the home only at a cost greater than the purchase price on the market. There is no place for the home woman in the industrial activities of the present society.

But something quite other has been the meaning of the new industrial processes for the life and the labor of men. The new machinery has served to provide them with tools by which vastly to enlarge the field of their effort, and to multiply their accomplishment in every single field. No matter what the deficiencies in the organization of all this new power, men have not grown idle or sluggish. They have not forfeited their functions, their jurisdiction, their aspirations, or their accomplishment.

But the history of the race does not indicate that to men exclusively belongs the duty or the privilege of labor, or that the present economic status of women is an adequate certification of progress in civilization. If women should not work, why should men? If self-respecting man must work, by what title is it now honorific to women to be idle? We have arrived at an unfortunate reversal of an earlier institution. In early society, an almost crushing amount of labor fell upon the female; under modern conditions among the fully civilized classes an unduly excessive share devolves upon the male.

The explanation of the existing situation is chiefly in modern technology. The fault is in the failure of society to work out those readjustments by which a significant share in the world's work shall be preserved for women, either within the home or outside of it. When the home is losing its economic utility, it can be available for those men alone who, being able to afford the luxury, are disposed to pay the attendant price. The increasing expensiveness of the home under modern conditions, its restriction of function to mere consumption and spending, explains the progressive swerving of men away from it, and the derivative and increasing horde of homeless and childless women outside.

Women breadwinners within the home our present American life doubtless has. But of these it holds true, as of the women of the factory, the shop, or the street, that, although belonging by sheer necessity to our American life, they yet have no place in that society which America holds as its ideal. They are our unfortunates among women, in that they have not found each her man, and attached him to her to work for her, to shelter her from all productive effort, and to support her. For it is the grievous fact that the American ideal of reputable living denies to women the rôle of economic producer and commiserates the girl who does not marry into a life of pecuniary ease; prescribes as a duty upon any self-respecting man that he neither offer nor enter marriage if his wife need be more than decoratively active; and, if he fail of this, insults her with pity and him with contempt.

It is in the cause of motherhood that we make our protest against the typical home of the American ideal. The economic dependence of women cannot be defended by the test of children; they are in inverse ratio to the room for them. The poor alone can afford to be prolific.

But not all housebound women would confess themselves to be idle. Think how absorbing and complicated the keeping of the home has become: its meticulous refinement, its ornate entertainments, its keeping busy—absorbed in the empty competition of modern house-furniture and bric-a-brac for dusting, its curtains for cleaning, its

rugs for beating. Busy indeed these women will be—but busy in keeping, in the collection of work-compelling plunder, in the maintenance of exhibition rooms, and in the general annihilation of comfort. The two hours' labor that should suffice for all rational daily needs, were there only something else to do, is devoted to the preparation of mayonnaise dressings or to the concoction of snow puddings, or to other certification of useless skill. Dishwashing, instead of coming thrice a week, comes three times a day. The laundry work piles up to the proportions of a nightmare. The one child, wearied by overdressing and spoiled by fussing care, pines for the forbidden joys of dirt and bare feet. Acquiescing in all this futility, the housewife finds enough her mere labors of supervision.

Meanwhile, the man whose business it is to pay the bills is busy enough in the process—too busy, indeed, in making the income to have either the time or the taste for the spending of it. But no pity is due to this tired captain of industry, or this busy moiler in trade or finance for the burden he carries. He may, no doubt, appear to be a mere pack-animal in the service of his family—a weary though willing slave to their folly—a man solely occupied in canceling the bills they are busy in contracting. But he is aiming at his own glory. To the women, as helpless victims of the competition of display, the function of spending has been delegated. Institutionally the wife is a mere agent in the process. Not only must she, to the degree that her lord is wealthy or is aping the possessors of wealth avoid whatever remnant of useful activity is open to her, lest the suspicion of need should attach to shame him; but also, by waste and lavish outlay, must she place upon exhibit and in continuous view the wealth and achievements of her master. In this process of certifying the fact of his financial prowess by seeming to spend upon herself, she seems to afford both motive and excuse for gaining the wealth. Such glory as belongs to her part is in being the wife of such a one, and in the delusion that he is making the money for her spending, rather than that she is spending it for his glory. The personal relation easily obscures the larger meanings of the institutional fact.

D. THE WORLD OF LABOR

54. Why Labor Resists Machines⁹

BY EDWIN CANNAN

When we work directly for ourselves we welcome with joy methods and appliances which reduce the labor of obtaining any particular

⁹Adapted from *The Influence of War on Commercial Policy* (in "Reorganization of Industry Series," III), pp. 37-38. Published by the Council of Ruskin College, London, 1917.

article, even if we want little or no more of the article than we have been getting. Just now we all garden for ourselves and know how nice it is to get a more effective tool or to learn of some method which saves labor in digging and hoeing. We do not regret the lost labor. Nor do we make reservations in favor of skilled labor: we cheerfully scrap our laboriously acquired talents if they are rendered unnecessary by the discovery of new methods or implements. The situation is obviously the same whenever a number of people co-operate consciously. There is no reason to suppose that a purely communistic society would have the slightest objection to adopting labor-saving methods or appliances: the labor saved would be regarded as a pure gain, since, if little or no more of the article produced by it is required, it can be applied in other directions, with the result of an increased total of desirable results, or it could be simply abandoned in favor of greater leisure.

But when we co-operate unconsciously by way of selling our own products and buying those of other people with the proceeds, changes in the direction of labor-saving generally have an unpleasant side. It may happen, of course, that the demand for the article is so elastic that when its production is made twice as easy and the price falls to one-half of what it was, a double quantity will be sold. In that case no inconvenience will be felt: there will be no reduction of employment in producing the article. People are apt to think that this should always be so, but in fact, of course, the demand for most things is not and cannot be so elastic. It is much more usual for the demand to be such that an increase of production proportionate to the reduction of labor will cause such a fall of price that there will be less available for the remuneration of labor, so that if all the previous workers insist on continuing, their position will be worsened; the same number can only be employed if they submit to reduced earnings, otherwise some must be excluded, which of course involves hardship, or at the very least inconvenience, varying in degree chiefly with the suddenness of the change. There is, of course, nothing exceptional or anomalous in this. In the case of an individual producing things for himself, a transfer of labor from one kind of production to another can be effected without inconvenience of hardship by the exercise of the sovereign power wielded by his brain. In the case of a communistic society transfers of labor from one occupation to another would be effected similarly without hardship to the persons concerned by simple decree of the labor ministry or whatever department of government was intrusted with the distribution of individuals between employments. But in society as we have it, people are attracted into employments and deterred from joining them, kept in

them and driven out of them, by the different and changing comparative advantages which they offer as means of earning a living. Recognition of this hardship is of course the most substantial cause of the sympathy which is widely felt with those who resist labor-saving methods and appliances.

55. Labor's Willing Slaves¹⁰

BY EDWIN ARNOLD

Look at common modern existence as we see it, and note to what rich elaboration and large degrees of comfort it has come. I invite you briefly to contemplate the material side of an artisan's existence in your own Birmingham. Let alone the greatness of being an Englishman, and the supreme safety and liberty of his daily life, what king of old records ever fared so royally? What magician of fairy tales ever owned so many slaves to bring him treasures and pleasures at a wish? Observe his dinner-board. Without being luxurious, the whole globe has played him serving-man to spread it. Russia gave the hemp, or India, or South Carolina the cotton, for that cloth which his wife lays upon it. The Eastern islands placed there those condiments and spices which were once the secret relishes of the wealthy. Australian downs sent him frozen mutton or canned beef, the prairies of America meal for his biscuit and pudding; and if he will eat fruit, the orchards of Tasmania and the palm woods of the West Indies proffer delicious gifts, while the orange groves of Florida and of the Hesperides cheapen for his use those "golden apples" which dragons used to guard. His coffee comes from where the jeweled humming-birds hang in the bowers of Brazil, or purple butterflies flutter amid the Javan mangroves. Great clipper ships, racing by night and day under clouds of canvas, convey to him his tea from China or Assam, or from the green Singhalese hills. The sugar which sweetens it was crushed from canes that waved by the Nile or the Orinoco; and the plating of the spoon with which he stirs it was dug for him from Mexican or Nevadan mines. The currants in his dumpling are a tribute from classic Greece, and his tinned salmon or kippered herring are taken from the seas and rivers of Canada or Norway. He may partake, if he will, of rice that ripened under the hot skies of Patna or Rangoon; of cocoa, that "food of the gods," plucked under the burning blue of the equator. For his rasher of bacon, the hog express runs daily with 10,000 grunting victims into Chicago; Dutch or Brittany hens have laid him his eggs, and Danish cows grazed the daisies of Elsinore to produce his cheese and butter. If he drinks

¹⁰Adapted from an address delivered at the Birmingham and Midland Institute, October 10, 1893.

beer, it is odds that Belgium and Bavaria have contributed to it the barley and the hops; and when he has finished eating, it will be the Mississippi flats or the gardens of the Antilles that fill for him his pipe with the comforting tobacco. He has fared, I say, at home as no Heliogabalus or Lucullus ever fared; and then, for a trifle, his daily newspaper puts at his command information from the whole globe, the freshness and fulness of which make the newsmen of Augustus Caesar, thronging hourly into Rome, ridiculous. At work, machinery of wonderful invention redeems his toil from servitude, and elevates it to an art. Is he fond of reading? There are free libraries open to him, full of intellectual and imaginative wealth. Is he artistic? Galleries rich with beautiful paintings and statues are prepared for him. Has he children? They can be educated for next to nothing. Would he communicate with absent friends? His messengers pass in the Queen's livery, bearing his letters everywhere by sea and land; or in hour of urgency the Ariel of electricity will flash for him a message to the ends of the Kingdom at the price of a quart of small-beer. Steam shall carry him wherever he would go for a halfpenny a mile; and when he is ill the charitable institutions he has too often forgotten in health render him such succor as sick goddesses never got from Aesculapius, nor Ulysses at the white hands of Queen Helen. Does he encounter accident? For him as for all others the benignant science of our time, with the hypodermic syringe or a waft of chloroform, has abolished agony; while for dignity of citizenship, he may help, when election time comes, by his vote to sustain or to shake down the noblest empire ever built by genius or valor. Let fancy fill up the imperfect picture with those thousand helps and adornments that civilization has brought even to lowly lives; and does it not seem stupid and ungrateful to say, as some go about saying, that such an existence, even if it were transitory, is not for itself distinctly worth possessing?

56. The Wage Slaves¹¹

BY ALLAN L. BENSON

Poverty did not go out when steam and electricity came in. On the contrary, the fear of want became intensified. Nobody who has not capital can live unless he can get a job. In the days that preceded the steam engine, nobody had to look for a job. The shoemaker could make shoes for his neighbors. The weaver could weave cloth. Each could work at his trade without anybody's permission, because the tools of his trade were few and inexpensive. Now neither of

¹¹Adapted from *The Truth about Socialism*, pp. 6-7. Copyright by the author, 1911.

them can work at his trade, because the tools of his trade have become numerous and expensive. The tools of the shoemaker's trade are in the great factory that covers, perhaps, a dozen acres. The tools of the weaver's trade are in another enormous factory. Neither the shoemaker nor the weaver can ever hope to own the tools of his trade. Nor, with the little handtools of the past centuries, can either of them compete with the modern factories. The shoe trust, with steam, electricity, and machinery, can make a pair of shoes at a price that no shoemaker, working by hand, could touch.

Thus the handworkers have been driven to knock at the doors of the factories that rich men own and ask for work. If the rich men can see a profit in letting the poor men work, the poor men are permitted to work. If the rich men cannot see a profit in letting the poor men work, then the poor men may not work. Though there be the greatest need for shoes, if those in need have no money, the rich men lock up their factories and wave the workers away. The workers may starve, if they like. Their wives and children may starve. The workers may become tramps, criminals, or maniacs; their wives and their children may be driven into the street—but the rich men who closed their factories because they could see no profit in keeping them open—these rich men take no part of the responsibility. They talk about "the laws of trade," go to their clubs and have a little smoke, and, perhaps, the next week give a few dollars to "worthy charity" and forget all about the workers.

E. NATIONAL EXPRESSIONS OF INDUSTRIALISM

57. Individualism and American Efficiency¹²

BY ARTHUR SHADWELL

The United States is new, partly developed, and untrammelled by traditions. It is not a homogeneous country, but a medley of peoples, nations, languages, creeds, and climates, having in daily life little in common but the mail, the currency, and the tariff. The British Empire itself hardly comprises a more heterogeneous racial assortment; it has the white man, the black, the red, the yellow, and the hybrid; the yellow includes most kinds of Asiatic and the white, every kind of European. Soil and climate are no less varied than the population; and though laws and social conditions exhibit more homogeneity, yet they exhibit large and numerous discrepancies. Still the United States is a nation, and the people possess some distinctive national qualities, well worth considering.

¹²Adapted from *Industrial Efficiency*, I, 1-47. Published by Longmans, Green & Co., 1900.

In general they are alert, inventive, ingenious, and adventurous beyond all other people, but hurried, careless, and unthorough. The merits of this temperament are more immediately obvious than its defects. The roar and bustle of industrial life in America, the excitement, the abundance of novelty, the enormous scale of operations, the boundless adventure, the playing with millions—all these impress the mind and draw attention from the defects which they foster and conceal. An English workman who had lived for years in the heart of it, where the smoke is thickest, the roar of machinery loudest, and the sound of millions most common, summed it up better than anyone I have met. "This is an adventurous country," he said; "they think nothing of millions; but it's all hurry-skurry work. Let her go! Give her hell! That's the word."

The recklessness is magnificent, and I suppose that at present it is business; but that is because the country is not yet filled up. There seem to be boundless possibilities within the reach of every man, and being generally intelligent, alert, and ambitious they hurry to realize them. If a man fails today in one direction, no matter; he can try again tomorrow in another.

The Yankee of old, as presented in literature, was an astute but deliberate person, saying very incisive things in a slow, drawling way, quick of mind, but slow of movement, not to be hurried, and much given to "whittling," which is not a very feverish and purposeful occupation. Does anyone whittle now? The present spirit arose with the development of the railway system, which opened up the country, poured in the population, brought the natural wealth to the market, and produced the millionaire. Since then industrial activity has gone with a rush. There was money to start industries and money to be made out of them. There were power and raw materials in the ground; there was labor, skilled or unskilled, coming along all the time. There was nothing to hinder; no enemies to watch, no army to keep up, perfect security and tranquillity. A great industrial expansion was inevitable; it could not help coming and bringing with it boundless possibilities of wealth. The millionaire multiplied, swelled to double, treble, tenfold his former bulk, and set such a glorious, shining, dazzling example that no man could behold it unmoved. In the United States there is "equality of opportunity," and all men with millionaireshood in their souls—a numerous body—felt that even if they could not reach that height they might get near to it. So the scramble for money became the occupation of a large part of the people. Hence the commercial hurry-scurry.

Trouble-saving, rather than time-saving, is characteristic of the Americans. It is the former, not the latter, that has an intimate relation to the distinctive qualities of their industrial success. The line

in which they are supreme is the invention of labor-saving machinery. They possess an inexhaustible fertility in devising ingenious contrivances for replacing toil. One explanation of this is the necessity of minimizing labor because of its high cost. No doubt that is a great stimulus, but there is more than that. There is a positive dislike of processes involving physical exertion. Perhaps it is chargeable to mental activity and eventually traceable to climate. At any rate it exhibits the paradoxical combination of love of hurry and dislike of bodily exertion.

These qualities have a weak side. They are fatal to thoroughness and finish unless these can be attained by mechanical means, which is very rarely the case. For first-class work some plodding is required. It is surely remarkable that so little first-class work of any kind is produced in the United States, with all its wealth, population, intelligence, and educational keenness. All the recent discoveries of importance, from bacteria to radium, have come from Europe. The number who go into the profession is large, and they produce a great deal of a certain quality, but nothing really first class. They never carry anything to its legitimate development, to the point of being a masterpiece. What is wrong is an attitude of mind that has never gotten beyond adolescence.

There is danger that slovenliness may become a national habit. "Slovenliness is something more than a violation of good taste; it is indifference to the best way of doing things; it is a kind of easy-going morality in matters of method." "Let it go at that" seems to be written all over the face of the land. You see it in the slovenliness of their language; in their affectation of slovenliness as a smart thing. You see it in wretchedly laid railway tracks, in swaying telegraph poles, in sliding embankments, in broken-down vehicles with rickety wheels too slight for their work, in harness tied up with a string, in scamped and hurried work everywhere. There seems to be a disdain of thorough workmanship and detail in finish.

The same national feeling is conspicuous in the factory and workshop. You may see machinery racketing itself to pieces and spoiling the material in the attempt to run faster than it can; you see waste of fuel and steam, machinery clogged and spoiling for want of care and cleanliness, the place in a mess and the stuff turned out in a rough, badly finished state. When you see this over and over again, you begin to understand why the United States, with all its natural advantages, requires a prohibitive duty on foreign manufactures which it ought to produce better itself.

The Americans are a highly emulative people, and anxious to beat not only their competitors but themselves. "Beat our own record" is one of the mottoes. A different trait is embodied in another

motto—"Don't grumble, boost." One method of boosting in America deserves particular attention, that of advertisement. In this Americans lead the world so successively that no competitor is in the running. Its development is assisted by the very curious trait of toleration of shams. Like the toleration of unfinished work with which it is connected, the toleration of shams is pervasive. It is illustrated in daily life by the pretense of a single class in railway traveling, by the use of such euphemisms as "help" for servant and "charity" for pauperism. Almost an affection for shams is shown in the encouragement given to every kind of imposture. America is the land above all others where everything that appeals to credulity and ignorance flourishes. It is there that new religions arise. It is there that the medical quackeries, the patent foods, the beautifiers, and all that gallery flourish most. I attribute this vogue to the boundless faith of Americans in their own country as the pioneer of civilization and enlightenment, to the wide diffusion of superficial education, and to the general contempt for the experience of mankind at large.

They have no reverence for what is old and proved outside their own borders. The mass of people believe that there is nothing to learn from other countries and that all things are possible in their own land. This feeling amounts to a superstition. In Europe, Germany, for instance, laws are made to be kept, and to that end they are very carefully made. In the United States the general contempt for law is astonishing. I am inclined to think that it is the most salient feature of American civilization. Laws thought to be oppressive are not obeyed; they are evaded or defied. I know no country in which laws that interfere with liberty of the individual are so common. They seem to be intended, not for the protection of the public and the maintenance of order, but for the promotion of morality. Of course, they cannot possibly be enforced.

The position of woman in America is peculiar, resting upon the accidental fact that there she is in a minority. The law of supply and demand gives her an effective advantage which the theory of equality enables her to utilize. In Europe, women are subordinated; in America, they are dominant. In the former they take orders; in the latter they give them. In the former the man is the boss; in the latter, the woman. The ideal wife, I suppose, is at once a helpmeet and a stimulus. In Europe the former predominates; in America, the latter. Each exercises a powerful influence on national life. In the former one of the largest elements of national strength is the domestic character of the women. In the latter the feminine stimulus is a great incentive to that strenuous application and restless enterprise which stand out so strongly. Both characters have their weak points; the helpmeet is likely to be blunted to a drudge, the stimulus to

be sharpened to a goad. Of the two the latter is the greater evil. The spoiling of women, though it makes the men work, is not good for the women; it fosters an exacting disposition, extravagance, love of amusement, and a distaste for domestic duties which threatens national vitality, and it reacts on the men, who console themselves elsewhere for exactions submitted to at home.

But, as for America, there is, after all, a spirit in the air which is not all due to climate—the spirit of endeavor, of expansion, of belief in a great destiny in which every individual shares. It is an inspiring atmosphere.

58. German Socialized Efficiency¹³

BY SAMUEL P. ORTH

Is Germany a model for our democracy? What price is she paying for her well-advertised efficiency? How is her paternalism affecting humannature?

The lure is a socialized Germany. The state owns railroads, canals, river transportation, harbors, telegraphs, and telephones. Banks, insurance, pawnshops, are conducted by the state. Municipalities are landlords of vast estates; they are capitalists owning street car lines, gas plants, electric light plants, theatres, markets, warehouses. The cities conduct hospitals for the sick, shelters for the homeless, soup-houses for the hungry, asylums for the weak and unfortunate, nurseries for the babies, homes for the aged, and cemeteries for the dead.

Add to this vast and complex system of state education, a system of training that aims at livelihood. Nothing like the perfection, the drill, and the earnest, unsmiling efficiency of these elementary and trade schools exists anywhere else in the world. In 1907, there were 9,000,000 children in the elementary schools, taught by 150,000 teachers, nearly all masters, as the "school ma'am" does not flourish in the Kaiser's realm. Every one of these pupils is headed for a bread-and-butter niche in this land of super-orderliness. More than 300,000 persons are employed by the state in some form of educational work, training the youth into adeptness, in all sorts of schools.

The army, as well as the school, brings home to every German family the fact that the state is watchful—and jealous. It demands that the two full years of every young man be "socialized"; and the peasant woman and the artisan's wife must contribute her toil to the toll that the vast system of state discipline demands.

Even the Church, that form of organized social effort which is everywhere first to break away from the regimen of the state, re-

¹³Adapted from an article in *The World's Work*, XXVI, 315-21. Copyright, 1912.

main "established." So I might continue through almost every activity—the vast system of state railroads, mines, shipyards—and include even art and music.

This socialized Germany is also an industrialized Germany. Everyone knows how cleverly advertised are German goods. But it is always well to remember that this race of traders and manufacturers has somehow, in one generation, come from a race of solid scholars, patient artisans, and frugal peasants. The old Germany has disappeared; the Germany of the spectacles, the shabby coat, and the book; the Germany of Heidelberg and Weimar. A new order has taken its place. As you ride in the great express, from Cologne to Berlin, you never are out of sight of clusters of tall, smoking chimneys. Symbolic of the new Germany are the Deutsche Bank, the trade of Hamburg, and the steel works of Essen.

How has it been possible to make this transformation? To create out of a slow, plodding, peasant-artisan people an industrialized population, out of a race of scholars a race of manufacturers; to fill a land no larger than one-half of Texas with 65,000,000 people who are breeding at the rate of nearly a million a year, and to engage the state in doing all sorts of things for these thriving families? It is the political miracle of the century, and its socialized efficiency is the talk of the hour. How has it been accomplished?

The Kaiser has adapted, line for line and point for point, the pattern of mediaeval feudalism to the exigencies of modern industrialism. So, to begin with, the Kaiser has an obedient people, in whom the feudal notion of caste is second nature. Everyone has his place, and shall keep it. Such shifting as now is tolerated is due to wealth and to the kind of ambition which luxury always awakens.

You cannot have superimposed classes without obedience. The average German is docile and wants to be told what to do.

The government has its eager hands in every pocket, its anxious fingers on every pulse. From the cradle to the grave, the state watches the individual, commands him and, in a way, cares for him; always seeing to it that he has a place in the national economy and that he keeps it.

To an outsider, of course, the inner workings of the mind and heart are hidden. But the outer aspect of the German state is perfectly patent. It is mechanism—there can be no doubt about it—the mechanism of the solar system. It is a land where every member of society has an ordained orbit and moves in it around the central sun, the state, which radiates a mystic gravitation into every activity—almost every thought—of every man, woman, and child.

Here you see the most varied activities held to the ideals of efficiency through a perfected feudalism. So that all Carl and John

need to do is to obey; then they are taught the rudiments of learning and a trade, are insured against the most disturbing episodes of life, assured also of some leisure, considerable amusement, and a decent burial. And that is life!

Of all invented contrivances this German machine is the most amazing, this vast enginery of state with the patents of Hohenzollern, Bismarck and Company on every part, that has reduced the life of a great people to complacent routine and merged the rough eccentricities of all into a uniformity of effort and ambition.

It is true that John and Carl can live their ordered lives in routine and contentment, rounding out year after year of plodding toil, paying their dues to the various funds and their taxes to the government, rearing their families, and intrusting them to the same over-care. But what sort of creatures does it make of John and Carl, and of their children, and their childrens' children?

There is no exact way, not even a German way, of measuring originality, individual initiative, and independence. But this also is certain: patience, obedience, minute training, do not foster daring and versatility. John and Carl settle down, literally settle down, to an uneventful life, looking forward to no change, taking no risks, seeking no alternatives. Once a butcher, always a butcher. This makes Germany depressing to a restless American who is always willing to "go it alone" and to get "a run for his money."

Some years ago, Mr. Ludwig Max Goldberger gave his countrymen the cheering news that Americans need not be feared, because "all that they have done, we can imitate." This is an actual policy. I have been told by American manufacturers that they have found their machines so exactly copied in German shops that only the absence of the patent dates and of the name of the makers told them that the machines were not made in the American shops. Already this land of drill and obedience is becoming an empire of conscious imitators.

There are on the German horizon ominous portents. First I should place the moral and psychological effects of luxury. Few nations can stand the sapping suction of plenty. The effect of the profligacy that is everywhere apparent in the New Germany will be particularly swift and fatal in a people who for generations have been frugal and plain.

On top of this wealth is an imperial debt that has risen from \$490,000,000 in 1901 to \$1,345,000,000 in 1912; this without reckoning the provincial and municipal debt which is four times larger

than the imperial. The burden of taxation in 1912 was \$70 per average family.

On top of this burden of debts sits the militarist, 1911-12, taking 622,520 young men out of the fields and factories for the standing army. This year 130,000 more are to be called out; and a new and unheard-of war program is proposed to this patient and obedient people. One must admire alike the audacity of the proposal, the patriotism of the voter, and the magnificent discipline that has wrought such submissiveness.

The red omen is the most conspicuous. Socialism is skilfully combining the revolt against this imperial, personal government, and the desire of the workmen for a greater share of the wealth of the land.

• If a revolt succeeds, what will happen to this centralized bureaucracy? What will become of the system of state aid and municipal socialism? For without an efficient bureaucracy you cannot have an effective paternalism; and without centralized administration you cannot run railroads, theaters, and pawnshops.

It is the one point usually overlooked by the enthusiasts. They paint glowing pictures of socialized Germany, but they fail to look under the surface. Germany's system is built upon discipline; hard, military, iron discipline, that grips every baby in its vise and forces every man into his place; a benevolent tyranny, no doubt, but nevertheless a tyranny; an efficient feudalism, but none the less a feudalism of self-conscious caste and fixed tradition.

No doubt the time has come when we must modify our system of extreme individualism by some system of social co-operation. How far shall we proceed in this path of socialized efficiency? Are we willing to pay the German price? Could we do it even if we wished to? Only a few peoples are fitted for such rigor. I believe that America would be a poor place for a Hohenzollern efficiency test. The carefully trained American barber would quite suddenly take it into his head to be a sailor or a constable, and "all the king's horses and all the king's men" couldn't hold him to his economic predestination.

When all has been said, I cannot escape the conviction that the real significance even of Germany is not in what the state has done for the workman but what the German workman has succeeded in doing for himself, in spite of the state.

This brings us back to the first postulate of Anglo-Saxon individualism: the basis of social co-operation is self-help.

F. THE EXTENSION OF INDUSTRIALISM

59. The Competitive Victory of Western Culture¹⁴

BY JAMES BRYCE

What is it that the traveler sees today in India, in Africa, in the two Americas, in Australia, in the isles of the Pacific? He sees the smaller, weaker, and more backward races changing or vanishing under the impact of civilized man; their languages disappearing; their religious beliefs withering; their tribal organizations dissolving; their customs fading slowly away.

From the bleeding of others with immigrants streaming in, a hybrid race is growing up in which the stronger and more civilized element seems fated to predominate. In other cases people too large and powerful to lose their individuality are nevertheless beginning to be so affected by European influences as to find themselves passing into a new circle of ideas and a new set of institutions. Change is everywhere, and the process of change is so rapid that the past will soon be forgotten. It is a past the like of which can never recur.

There is one other aspect of the present age of the world that has a profound and novel meaning for the historian. The world is becoming one in an altogether new sense. More than four centuries ago the discovery of America marked the first step in the process by which the European races have now gained dominion over nearly the whole of the earth. The last great step was the partition of Africa a little more than twenty years ago.

Now almost every part of the earth's surface, except the territories of China and Japan, is either owned or controlled by five or six European races. Eight Great Powers sway the political destinies of the globe and there are only two other countries that can be thought of as likely to enter after a while into the rank of the Great Powers. Similarly a few European tongues have overspread all the continents except Asia, and there it seems probable that those European tongues will before long be learned and used by the educated classes in such wise as to bring those classes into touch with European ideas. It is likely that by 2000 A.D. more than nine-tenths of the human race will be speaking less than twenty languages.

Already there are practically only four great religions in the world. Within a century the minor religions may be gone; and possibly only three great faiths will remain. Those things which are already strong are growing stronger; those already weak are growing weaker and are ready to vanish away. Thus, as the earth

¹⁴ Adapted from address delivered before the International Congress of Historical Studies, London, May, 1913.

has been narrowed through the new forces science has placed at her disposal, and as the larger human groups absorb and assimilate the smaller, the movements of politics, of economics, and of thought in each of its regions become more closely interwoven with those of every other. Finance, even more than politics, has now made the world one community, and finance is more closely interwoven with politics than ever before.

World history is tending to become one history, the history no longer of many different races of mankind occasionally affecting one another's fortunes, but the history of mankind as a whole, the fortunes of each branch henceforth bound up with those of the others.

60. The Economic Conflict of Western and Primitive Culture

BY FRIEDA S. MILLER

Not once, since the Turks captured Constantinople, has European civilization been threatened by an external force. Yet, since that time, and by its own volition, it has been in constant contact with non-European peoples in their own countries. Clearly the West was not summoned by China to establish an open-door policy, and the American Indians invited no discovery.

The motive to European expansion may afford some clue to its possible effect. Religious persecution, political differences, scientific curiosity, all these have played their part; but the persistent aim has always been economic gain. The lure of the guinea alike led Spain to America, Portugal around the African cape, England to India and South Africa, and Russia across the snows to the walls of China. Pecuniary profit has been the lodestar that has led the West to the East. This motive is the open sesame to an understanding of the business of the Occident in the Orient. It means, above all, that the "new" countries, possessed of their tremendous resources, which can be unlocked only by the white man's magic key of the machine process, are to be used for the white man's profit. In its extreme form, before civilization softened the formalities, it meant for the natives slavery and transportation to distant lands. But such practices have been succeeded by a strict legal and moral code which regulates the contact of white man and native. The white man may content himself that his ritual has proved itself in the Western world, and even flatter himself that it is the best he has to offer the native. His long personal use should enable him to guarantee its efficacy. Now what the white man wants first of all is land. This he sets about obtaining legally. He proffers the native beads or a knife in exchange for his title. When the native chief accepts, as he is likely

to do, by this act which marks an exercise of his own free will and judgment, he has contracted away the lands of his tribe. No one has been injured; since the act was voluntary, the agreement extended to both parties, and compensation in full was rendered. The parties, therefore, being legally bound, must be held to the performance of their obligations under the law of contracts.

Having gained control of the soil, which may mean railroad and mining concessions in China, gold mines in South Africa, or sugar plantations in Hawaii, and having thus in his hands the possibilities of pecuniary gain, the white man's next problem is to find means of developing this potential wealth. Again the conventions of the Western world are required to prove their efficacy. Either dignity of labor or freedom of contract can be made to fit the case. On the one hand there is work in railroad building, mining, herding cattle, or what not, that requires the doing. On the other hand there are hordes of able-bodied natives who are not productively employed. Proper consideration for the dignity of toil, therefore, leaves the white man no alternative but to devise a system for securing the labor of the savage. A head tax may be levied which must be paid in money. Or a tax may be placed on the native which he can discharge in work. More easily, again using the magic wand of contract, the savage may be gotten in debt; and surely he must be held responsible for obligations voluntarily assumed. The result is the permanent establishment of the wages system.

The nature and consequences of such overlordsip can be easily appreciated. Economically the native is regarded as a convenient instrument for causing success to attend the white man's venture. The noneconomic effects are also interesting and far-reaching. The coming of the white man not only makes a wage slave of the native, but demoralizes him socially and spiritually. Tribal life is broken up when sufficient lands for hunting or communal agriculture are no longer available. With it comes the end of the power of chiefs and priests, the latter still further undermined by the assiduous efforts of Christian missionaries to convince the "heathen" of the wickedness of their leaders. Moreover, the native's observation of the white man's mode of life, with its impunity from tribal taboos and disregard of tribal sanctions, destroys their validity for him. Finally the whole primitive system of control under which he has lived suffers shipwreck.¹⁵

¹⁵ Compare the plaint of the natives in Rhodesia, as voiced by Sir Richard Martin, in his official report. "The natives practically said, 'Our country is gone and our cattle; we have nothing to live for. Our women are deserting us; the white man does as he likes with them. We are the slaves of the white man; we are nobody and have no rights or laws of any kind'" (Hobson, *Imperialism; A Study*, 281, note).

All this but makes the native a more pliant instrument, since he cannot reconstruct a new system of values to fit the new situation. He does not understand the white man's object, or see to what place this foreign system assigns him. His mental attitude is quite external to the real nature of the system which is closing in about him. Therefore he has not the recourse against it possessed by the wage-workers of Western countries, who, whatever their weakness, still sense the drift of events that is involving them. This inferior position is made permanent and definite by the fact that most of the native races which Western civilization has encountered cannot be assimilated. It is not the purpose of Europeans, even were it possible, to educate primitive races to a point where they could reap the profit of the development which their countries are undergoing.

But the results of such a policy, naturally enough, are not limited to the countries affected. To assure the pecuniary success which is the object of colonial expansion, trade is necessary. If a colony is cut off from communication with the Western World, rapid pecuniary gains cannot be made. The settlers must supply their own needs, thus establishing a self-sufficient economic system. But it is only as a part of a much larger industrial entity that the potential resources of the colony may be most advantageously utilized. A disposition of the surplus abroad gives vast differential gains. The promoters, therefore, will strive to make the colony a part of the existing industrial system. In course of time the industrial aristocracy will live under a social system and possess a civilization like that of the Western World. The natives, too, will live under such a system, but as a permanent proletariat. Thus the West with its culture is reaching out to grasp lands held by primitive peoples, and to reduce its complex and different scheme of life to its own system of values.

But the process must inevitably react upon the structure of Western society. The spirit of colonial life must influence the mother-country. Colonial pecuniary interests must find their part in Western politics. The easier life of the tropics must have its telling effect on character, and hence affect the morals of the home people. The sense of empire, too, exercises a peculiar psychological influence which cannot be analyzed. It, also, threatens the home wageworker with competition of cheap foreign labor. Such are the results of the competition of Western and primitive culture, when the contest is fought on the territory of the latter, and the weapons are all of Western fashioning.

61. Industrial Penetration¹⁶

BY HENRI HAUSER

What strikes us in the evolution of German industry is the actual greatness of the phenomenon. There is something impressive in the spectacle of this people which forty years ago scarcely counted at all in economic geography, and yet had become on the eve of the war one of the great forces of the world. With her ninety to one thousand millions of foreign commerce Germany stood in the second rank of mercantile nations after England.

The evolution of Germany has borne a startling and almost catastrophic character. From the complex of agricultural states, which constituted the Zollverein in 1870, the industrial empire has sprung up in a few years by a sort of historical "right-about-face," without any of that slow and secular preparation which marked the rise of the English power.

This has had serious consequences for the character and distribution of the population of Germany. The two most notable results have been the disappearance of the rural population and the abrupt cessation of emigration. It is repeatedly stated that the Germans were forced into a policy of expansion and conquest by the increase of their population. A pitiless Malthusian law had compelled them to find for themselves "a place in the sun." There can be no idea more false than this of Germany as an overpopulated country. It is true that the excess of births over deaths in Germany has been 800,000 a year. But this increase is far from excessive, for every year 700,000 slave laborers come in to work on the great estates of the East, not to mention the Italian, Croatian, and Polish labor employed in towns, mines, and works. As for German emigration it is no longer more than a memory.

Out of 67,000,000 Germans scarcely 17,000,000 live on agriculture. Every year an enormous number of peasants quit the land and rush into colossal factories. Germany has definitely passed from the type of the agricultural state to that of the industrial state, from the *Agrarstaat* to the *Industriestaat*. The equilibrium between the land and the workshop has been upset.

The industrial state has very imperious needs and requirements which are not shared by the agricultural state; the agricultural state lives on itself and for itself and can live within its own limits. The industrial state is a "tentacular" state.

To begin with, it has need of supplies of food. It is calculated that more than one-third of the German people depend for their

¹⁶ Adapted from *Economic Germany*, a lecture given on April 10, 1915. Printed by Thomas Nelson and Sons, 1915.

maintenance on foreign harvests and foreign cattle—a dangerous position, since it compels Germany to secure for herself at all times not only free passage over her land frontiers, but, above all, freedom of communication by sea. We know what it costs Germany today to be cut off from receiving the wheat of Russia, America, and Argentine.

The industrial state is in pressing need of both capital and raw material. Germany, when she entered the lists, was regarded as rich in coal and iron. She has remained rich in coal, but by working her iron mines intensely she can no longer extract from them the amount of ore required for her metallurgical works. Krupp is more and more dependent upon Sweden, Spain, North Africa, and France. The spinning and weaving factories of Saxony are dependent on Texas and Louisiana. Raw cotton bulks larger than any other article imported into Germany. Two-thirds of the raw cotton consumed by the world is produced in the United States.

Customers are necessary to Germany even more than capital. In spite of their power of increase, in spite of their rapid advance in wealth, in spite of their appetite for enjoyment, the German people cannot by themselves alone absorb the enormous output of the German factories. They are turning more and more to the outside world and are becoming an exporting nation.

All causes, then, combine to make Germany a tentacular state spreading out in every direction all over the world. The general staff of the industrial world needs a "world-policy" to find interest for its capital and to pay the wages of its workmen. The proletariat has need of it to give him a full day's work and save him from starvation.

Thus we see the industrial state condemned to world-policy. Its first business is to find means to develop its policy of exports. The first means adopted is the system of bounties. As German industry is working less for the home market than for foreign markets it is logical to sell cheap and sometimes to sell at a loss. Thanks to the system by which the chief economic forces are grouped in cartels, the process is easy enough. Next to the system of bounties comes that of treaties of commerce, which favor the importation of provisions and of laborers.

To meet the want of iron Germany had to find new supplies of ore—peaceful conquest to begin with. The application of the Thomas process in 1878 converted the Briey Basin into the most important iron field at present being worked in the world. With the iron of Lorraine and Normandy and the coal of Westphalia, Germany would be mistress of the world. To make sure of this supremacy it was of importance to remove all competition and to establish German industry in the very heart of the country of her

rivals. German manufacturers acquired control over French works producing chemicals and electricity. The Badische Sodafabrik, under a French name, provided the madder dye for the red trousers of the French army. Similar conquests were won at Seville, Granada, Buenos Aires, Montevideo, Mendoza, Santiago, and Valparaiso, by the General Electric Company of Germany. Like concessions were won in Turkey, Russia, and Italy.

To back up this policy of economic conquest the prestige and the strength of the empire must be put at the service of the manufacturers, to make the state the instrument of German expansion—this is the meaning of what the Germans have well named the policy of “business and power” (*Handels und Machtpolitik*). The fusion of *Weltpolitik* and business policy was peculiarly dangerous to the peace of the world. If imperialism, if the tentacular state, puts its strength at the disposal of manufacturing interests, the temptation is strong and constant to use this strength to break down any resistance which stands in the way of a triumph of these interests. “Be my customer or I kill you” seems to be the motto of this industrial system continually evolving in its diabolical circle; always producing more to sell more in order to meet the necessities of a production always growing more intensive.

Russia is for Germany both a reservoir of labor and a market. France is for Germany a bank and a purveyor of minerals. What a temptation to dig deep into the jealously guarded stocking and fill both hands! As for England, the direct competitor of Germany in all the markets of the world and manufacturing the same goods, she is the enemy to be crushed. Has she not acquired the habit, and has she not taught it to France, of refusing to lend money to poor states except in return for good orders? What is to become of Essen, and all that immense industrial city of which Westphalia consists, if Roumanians, Greeks, Serbians order their guns and their ironclads, their rails, or their locomotives at Glasgow or Le Creusot? Germany thought war preferable to this economic loss, and the velvet glove gave place to the mailed gauntlet. Little by little the idea of war as necessary, of war as almost a thing to wish for, laid hold on the industrial classes. The overrapid industrialization of Germany has led by a mechanical and fatal process, to the war. If any doubt were felt on the part played by economic causes in this war, it would be enough to look at the picture of German victory as imagined by the Germans. It is an industrial victory, a forced marriage between German coal and foreign iron, the reduction of nations into vassals who are to play the part of perpetual customers of the German workshops.

62. Concessions and the War¹⁷

BY ALVIN JOHNSON

Let us look somewhat closely upon the structure of capital as an economic force. We shall find that it embraces two elements differing widely in character. The one, which we may denominate capital proper, is characterized by cautious calculation, but a preference for sure, if small, gains to dazzling winnings. The other, which we may call speculative enterprise, is characterized by a readiness to take risks, a thirst for brilliant gains.

Capital thrives best in a settled order of society, where the risks of loss are at a minimum. It accepts favors from government, to be sure, but politics is no part of its game; peace and freedom from disturbing innovations are its great desiderata. Speculative enterprise, on the other hand, thrives best in the midst of disorder. Its favorite field of operations is the fringe of change, economic or political. It delights in the realm where laws ought to be, but have not yet made their appearance. To control the course of legal evolution, to retard or divert it, are its favorite devices for prolonging the period of rich gains. Politics, therefore, is an essential part of the game of speculative enterprise.

At the outset of the modern era, speculative enterprise quite overshadowed capital proper. Colonial trade, government contracts, domestic monopolies were the chief sources of middle-class fortunes. But with the progress of industry, slow, plodding capital has been able steadily to encroach upon the field of enterprise. In our own society the promoter of railways and public utilities, the exploiter of public lands, the trust organizer, are as prominent relatively as in any modern nation. Quantatively, however, their interests are greatly inferior to those of the trader, manufacturer, banker, small investor, and the farmer, to whom a 10 per cent return is a golden dream and a 20 per cent one a temptation of the Evil One.

In the new country of vast natural resources there is sufficient scope for both speculative enterprise and capital proper. The United States has been such a country. There was easy money enough for all men of shrewdness and resolution possessed of the necessary initial stake—public forests to be leveled, railways to be built or wrecked, trusts to be organized, cities to be provided with public utilities. But, in view of our changing attitude, this easy money appears to be in danger of being locked up. Already we are beginning to hear murmurs that, in view of the popular hostility to wealth, it will be necessary for American capital to look for foreign investments. Not foreign investments in England, France, and Germany,

¹⁷ Adapted from "The War—By an Economist," *Unpopular Review*. II, 420-28. Copyright, 1914.

where government is efficient and capital proper prevails, but foreign investments in the undeveloped countries, in a Land of the Morning, "east of Suez."

The progress of modern industrial society, with its parallel development of the art of government, tends to the exclusion of speculative capital, and its concentration in the tropical and subtropical belts. In the older societies this process has been in operation for a considerable time. For generations British citizens have been taught to look to Asia, Africa, and America for sudden wealth. Although Germany had a slower start, the efficiency of government has recommended new countries to those looking for brilliant gains. In a generation much of our speculative capital will be employed in colonial exploitation.

Capital, it is often said, knows no such thing as patriotism. This may be true of the cautious, colorless capital of industry and finance. But an immense patriotism is avowed by J. J. Hill, by the DuPonts, by the Guggenheims. Most intense of all is the patriotism of the capitalist whose interest lies in the twilight zone of the barbaric belt. Purer expressions of concern for America's future than those now issuing from the lips of concessionaries in Mexico you never hear. We are all moved by the grandiose African dream of Cecil Rhodes: "all red"—i.e., British—a British heart within every black skin from the Cape to Cairo. The case is typical of the capitalist speculator abroad. By interest the concessionary capitalist is a patriot. He needs his country in his business. But this is no impeachment of his patriotism. His type is reckless and therefore idealistic. His private interests become submerged in his imperialistic ambition. Patriotism has always burned more brightly in border provinces than in the heart of the national territory. It is natural, then, that patriotism should be still more intense in those extensions of the national domain represented by permanent investments abroad.

Now patriotism compounded with financial interests usually produces detestation for the corresponding alien compound. Speculators in South America and the Orient meet their rivals from other nations and hate them heartily. Those speculators are the nerve ends of modern industrial nationalism, and they are specialized to the work of carrying sensations of hate. For the present we have few nerves of this kind. They have conveyed to us only a vague impression of the uneasiness felt by England and France over the German advance in the colonial field. German speculators, thwarted in their designs by the English and French, have contributed to the popular feeling that Germany must fight for what she gets.

The capitalist speculator, even at home, enjoys a power over the popular imagination and a political influence quite incommensurate

with the extent of his interests. When the seat of his operations is a foreign territory, whence flow back reports of his great achievements—achievements that cost us nothing, and that bring home fortunes to be taxed and spent among us—his social and political influence attains even more exaggerated proportions. This is the more significant since his relations with government are concentrated upon the most sensitive of government organs, the foreign office.

When diplomatic questions concerning the non-industrial belt arise, and most diplomatic questions concern this belt, the voice of the concessionaries is heard in the council of state. The voice is the most convincing because of the patriotism that colors its expression of interest. More important, the ordinary conduct of exploitative business in an undeveloped state keeps the concessionary in constant relation with the consular and diplomatic officers established there. In a sense such officers are the concessionary's agents, yet their communications to the home office are the material out of which diplomatic situations are created.

It is accordingly idle to suppose that exploitative capital in foreign investments weighs in foreign policy only as an equal amount of capital at home. In view of the conditions mentioned, a small investment may prove a great menace to the peace of nations. For years Germany, Russia, England, and France have been brought to the belief that something very vital turns upon the control of the Land of the Morning. Indeed, the whole civilized world has been seduced into accepting this belief. Yes, something very vital for exploitative capital. Out of such delusions spring wars.

It is the interest of exploitative capital that makes the Morning Land, Mexico, China, and Africa rotten stones in the arch of civilization. But for exploitative capital, these regions might remain backward, socially and politically: this would not greatly concern any industrial nation, except so far as it responded to a missionary impulse. The backward states, however, afford possibilities of sudden wealth; and, since this is the case, they must attract exploiters, who must seek and obtain the backing of their home governments, with resultant international rivalry, hostility, war.

In a short time there will be one new element in the situation, new, at any rate, to us. In a generation our strong men of speculative finance will be established in the undeveloped countries; concessions will figure conspicuously among the items of our national wealth. The foreign contingent of our capital will join in the battle for exploitative advantages. And who shall say that our country may not be a protagonist of the next great war? One-half of 1 per cent of our capital just failed of forcing us to subjugate Mexico.

If we could confidently predict the industrialization of the backward countries, we should be able to foresee an end of this one most fruitful of all sources of international strife. But China will not be industrialized for a generation at least; and many generations must elapse before the tropics are concession-proof. Accordingly the one hope for universal peace would appear to lie in the possibility of divorcing, in the popular consciousness, the concessionary interest from the national interest.

The concession and the closed trade are the fault lines in the crust of civilization. Solve the problem of the concession and the closed trade, the earth hunger will have lost its strongest stimulus, and peace, when restored, may abide throughout the world.

IV

THE PECUNIARY BASIS OF ECONOMIC ORGANIZATION

"The industrial system in which we live is without order, plan, and system; its name is Chaos," asserts our socialist friend. In a lecture on "The Relation of Political Economy to Natural Theology," an English divine says in substance: "The almost perfect way in which, without conscious intervention, our multifarious industrial activities are co-ordinated into a system that satisfies our needs bears evidence of the mysterious way in which God moves 'his wonders to perform.'" These antagonistic opinions raise some of the most pertinent questions connected with the organization of society. Is our economic world one of order? Can industrial organization maintain itself without authoritative interference? Is the "automatic" organization of society the most economical? Can it be supplemented, controlled, or superceded? Does it serve, or can it be made to serve, the requisite ethical ends? In this division attention is given only to the more immediate aspects of these general problems. A consideration of the factors of a developing society which complicates them must be reserved to the next division.

The first question can be given a definite affirmative answer: our system is possessed of order. The nicety with which men and "jobs," capital and opportunities for investment, and supply of and demand for goods are brought together attests this. An examination reveals in our scheme of prices an admirable mechanism for preserving this organization. Rising prices attract capital, labor, or goods; falling prices repel them. Back of this we find an active organizing agency in pecuniary competition. Further examination shows that our system is admirably adapted to manipulation through price changes. Labor, capital, and goods are mobile; the industrial technique is plastic; and our scheme of values has translated itself very largely into pecuniary terms. We have also devised several special contrivances which tend to eliminate personal factors and make easier the exercise of the motivating power of price. Of these the corporation is typical. It reduces economic judgments to the cold calculus of dollars. It has split up business opportunities into bits small enough to fit the pocketbook of the most insignificant investor; it has distributed the risks of industry in accordance with the whims of different classes of capitalists; and it has served to place capital under the control of the pecuniarily ablest managements. It has, perchance, more than once freed the pecuniarily unfit from the burden of his possessions.

The second question can definitely be answered in the negative. The system cannot maintain itself without authoritative interference. The state must preserve "law and order," maintain the integrity of basic institutions, provide an efficient monetary system, keep free the channels of trade, and act as arbiter in industrial disputes. The various trades must have their bodies of developing custom. The constraints of social usage must give at least a modicum of order to the wants of consumers. Yet the important rôle of authority in industrial organization is often lost sight of and competition itself is denounced as "ruthless." This judgment springs from a confusion of competition and laissez faire; of the process of organization and the fundamental institutions which condition it. The "plane" of competition can be authoritatively determined, even though competition be left "free." Accordingly the ethical character of the result depends, not on the fact of competition, but on "the rules of the game."

The third question cannot, at least at this stage of our study, be answered definitely. More than one industrial activity has been pronounced uneconomical and its personnel parasites. It requires little effort to think of many trades or vocations which for a time have enabled their devotees to reap without sowing. Such methods of acquiring "easy money" necessarily involve "economic waste," and should be forbidden. Frequently "middlemen" and "speculators" are consigned to this class of unproductive and unprofitable servants. Analysis shows that both perform very necessary functions in the organization of the market. But this does not dispose of the question of economy in organization. It may well be that there are too many "middle-men"; that there is a waste of our limited social resources at this point. And it is doubtless true that speculation frequently degenerates into gambling. If so, two problems are presented: Can the waste of resources in mercantile pursuits be checked without interfering with efficiency in service? Can speculation be stripped of gambling without interfering with the performance of its organizing functions? Almost as often the economy of the system as a whole is called into question. Our attention is directed to the "wastes of competition"; and it is urged that these wastes can be eliminated either by a policy of "regulated monopoly" or by "the socialization of industry." A consideration of these delicate problems of economic organization will have to be postponed until later in our study.

The fourth question involves several questions which cannot be answered in a single statement. The evidence seems to be against society's being able arbitrarily to fix prices that are greatly at variance with "natural" prices. The wholesale prescription of a scheme of prices is a very complex question; it practically involves a socialization of industry; economists generally would pronounce against it. However, it seems evident that prices can be indirectly changed by means of controlling demand or supply. This indirect attempt to interfere with prices is characteristic of monopoly, of trades-unionism, and of such proposals as, say, a minimum wage coupled with a control of immigration. It will reappear in connection with each of these problems. Finally, as we have already seen, society can exercise an influence over the institutional situation within which price-fixing occurs.

The fifth question we must pass by. We cannot pronounce an ethical judgment upon the organization of the present system until we have had a chance to study both the problems referred to in this section and many others. It may perchance be that even then we will hesitate to pronounce a judgment.

A. PRICE AS AN ORGANIZING FORCE

63. The Social Order¹

BY EDWIN CANNAN

Some would have us believe that at present there is in society no organization at all. They use hard words, such as "scramble for wealth," "suicidal competition," "exploitation," "profit-hunting," and say that the present state of things is "chaotic." Now, whatever our present state may be, however unsatisfactory it is, it is certainly not chaotic. If it were really chaotic, everyone who goes to his daily work tomorrow must be a fool, since he would be just as likely to get his daily bread if he stayed at home. The very fact that we all know as well as we do that certain results will almost inevitably fol-

¹Adapted from *Wealth: A Brief Explanation of the Causes of Economic Welfare*, pp. 72-75. Copyright by P. S. King & Co., 1914.

low upon a certain course of action shows that we are not living in chaos. Our system may be a bad system, but it is a system of some sort; it is not chaos. If a man holds a book too close to his nose he cannot read it, and so it is with the world of industry. If we look at it from too close a standpoint we can only see a blur.

Let us imagine a committee of the Economics Section of the Association for the Advancement of Science of the planet Saturn reporting on what they had been able to see of affairs on our planet through a gigantic telescope big enough for them to see human beings moving on its face. Would they be able to report that poor Mundus seemed quite chaotic? Would they report that everyone was scrambling for himself to the disadvantage of everyone else in such a way that the general good seemed entirely neglected? Would they say that all the land in the most convenient situation was lying idle, that nobody had a roof over his head, and that everyone was running about aimlessly or sitting idle in imminent danger of starvation? They might report something of the kind if they could carry on conversations with certain people here and if they believed all they were told, but certainly not if they judged by their own observation.

They would be more likely to report that they had seen a very orderly people co-operating on the whole with a wonderful absence of friction—that they had seen them come out of their homes in the morning in successive batches and wend their way by all sorts of means of locomotion to innumerable different kinds of work, all of which seemed somehow to fit into each other so that as a whole the vast population seemed to get fed, and clothed, and sheltered. They would not, of course, vouch for the perfection of the arrangements. They would see that there were occasional irregularities and hitches. They might see now and then too many vehicles in one street, too many passengers trying to travel by one train or tramcar. They might even see along the country roads the melancholy spectacle of men tramping in both directions in search of the same kind of work. They might be able to see that some had too much—more than they seemed to know how to dispose of without hurting themselves and others—while some evidently had too little for healthy and happy existence. But in spite of these defects they would report, I think, that on the whole the machinery, whatever its exact nature, seemed to do its work fairly effectively.

If we can imagine them able to go back five hundred or a thousand years, we can feel tolerably sure that they would report still more favorably, since they would then see the enormous improvement which had taken place and would discover no appearance of any change which would suggest that the existing system is not the outcome of an orderly development of the institutions of the past.

I insist so strongly on the fact that our existing machinery does work, not with any idea of contending that all is for the best in the best of all possible worlds, but because to understand economics it is necessary to begin by considering, not the defects in the machinery, but the main principles involved in its construction and working. We are likely to begin with the defects because it is they which strike our eye and excite our sympathy. Seven per cent of unemployed are much more likely to make us start thinking than 93 per cent who are in employment. The emaciated corpse of a single person starved to death naturally makes more impression on our minds than the comfortable bodies of a hundred thousand sufficiently fed citizens. But if we want to understand the reason why work and food do not quite "go round," we should begin by endeavoring to discover what, after all, certainly does not explain itself—why they go as far round as they do.

64. Competition and Industrial Co-operation²

BY RICHARD WHATELY

"Bees," said Cicero, "do not congregate for the purpose of constructing a honeycomb; but, being by nature gregarious animals, combine their labors in making the comb. And man, even more so, is formed by nature for society, and, subsequently, as a member of society, promotes the common good in conjunction with his fellow-creatures." Most useful to society, and much to be honored, are those who possess the rare moral and intellectual endowment of an enlightened public spirit; but, if none did service to the public except in proportion as they possessed this, society, I fear, would fare but ill. As it is, many of the most important objects are accomplished by the joint agency of those who never think of them, nor have any idea of acting in concert; and that with a certainty, completeness, and regularity which probably the most diligent benevolence, under the guidance of the greatest human wisdom, could never have obtained.

For instance, let anyone propose to himself the problem of supplying with daily provisions of all kinds a city containing above a million of inhabitants. Let him imagine himself intrusted with the office of furnishing to this enormous host their daily rations. Any considerable failure in the supply, even for a single day, might produce the most frightful distress. Some of the articles consumed admit of being reserved; but many, including most articles of animal food, and many of vegetable, are of the most perishable nature. A redundancy of supply would produce great waste.

²Adapted from *Introductory Lectures on Political Economy* (2d ed.; 1832) pp. 90-98.

Moreover, in a district of such vast extent, it is essential that the supplies should be so distributed among the different quarters as to be brought almost to the doors of the inhabitants. Moreover, whereas the supply of provisions for an army is comparatively uniform in kind, here the greatest possible variety is required, suitable to the wants of various classes of consumers. Again, this immense population is extremely fluctuating in numbers; and the increase or diminution depends upon causes which cannot be distinctly foreseen.

Lastly, and above all, the daily supplies of each article must be so nicely adjusted to the stock from which it is drawn—to the scanty, or more or less abundant harvest, or other source of supply—to the interval which is to elapse before a fresh stock be furnished, and to the probable abundance of the new supply, that as little distress as possible may be undergone; that upon the one hand the population may not unnecessarily be put upon short allowance, and that on the other hand they may be preserved from the more dreadful risk of famine, which would ensue from their continuing a free consumption when the store was insufficient to hold out.

Now let anyone consider this problem in all its bearings, reflecting upon the enormous and fluctuating number of persons to be fed; the immense quantity and the variety of the provisions to be furnished; the importance of a convenient distribution of them, and the necessity of husbanding them discreetly; and then let him reflect upon the anxious toil which such a task would impose on a board of the most experienced and intelligent commissaries; who after all would be able to discharge their office but very inadequately.

Yet this object is accomplished far better than it could be by any effort of human wisdom, through the agency of men, who think each of nothing beyond his immediate interest—and combine unconsciously to employ the wisest means for effecting an object, the vastness of which it would bewilder them even to contemplate.

Early and long familiarity is apt to generate a stupid indifference to many objects, which, if new to us, would excite great admiration; and many are inclined to hold cheap a stranger who expresses wonder at what seems to us very natural and simple, merely because we have been used to it. A New Zealander who was brought to England was struck with especial wonder, in his visit to London, at the mystery of how such an immense population could be fed, as he saw neither cattle nor crops. Many Londoners, who laughed at the savage's admiration, would probably have been found never to have thought of the mechanism which is here at work.

It is really wonderful to consider with what ease and regularity this important end is accomplished, day after day, and year after year, through the sagacity and vigilance of private interest operating

on the numerous class of wholesale and retail dealers. Each of these watches attentively the demands of his neighborhood, or of the market he frequents, for such commodities as he deals in. The apprehension, on the one hand, of not realizing all the profit he might, and, on the other, of having his goods left on his hands, either by his laying in too large a stock, or by his rivals' underselling him—these, acting like antagonistic muscles, regulate the extent of his dealings, and the prices at which he buys and sells. An abundant supply causes him to lower his price, and thus enables the public to enjoy that abundance; while he is guided only by the apprehension of being undersold; and, on the other hand, an actual or apprehended scarcity causes him to demand a higher price.

For doing this, corn-dealers in particular are often exposed to odium, as if they were the cause of the scarcity; while in reality they are performing the important service of husbanding the supply in proportion to its deficiency. But the dealers deserve neither censure for the scarcity which they are ignorantly supposed to produce, nor credit for the important public service which they in reality perform. They are merely occupied in gaining a fair livelihood. In the pursuit of this object, without any comprehensive wisdom, or any need of it, they co-operate, unknowingly, in conducting a system which, we may safely say, no human wisdom directed to that end could have conducted so well.

B. THE ORGANIZATION OF PRICES

65. The Nature of the Price-System³

Every one of us is dependent, not only for the fulness of life, but for existence itself, upon maintaining a connection with the industrial system. Doubtless we may still hypothecate an isolated individual, thanks to the gifts of nature about him, sufficient unto himself for all the means of an empty and precarious existence. We may perhaps visualize communities with economic arrangements far simpler than ours, communities in which men take directly from soil, forest, and stream the materials upon which their welfare depends. In such communities the formulas of well-being run in terms of health, strength, and exertion; of the soil, the sun, and the rain. But under industrialism the simplicity is gone and the old formulas will not do. Under its ritual a man performs a highly specialized productive act or service, not for himself primarily, but for a multitude of others. Likewise the objects and services essential to his numerous desires comes to him from a vast and complex industrial system, which uses

³An editorial (1917).

all sorts of men and equipment and ramifies unto the utmost corners of the earth. A connection of the individual with this great world-machine is necessary to his very life.

This making of a living by many men for many men has usually been called the division of labor. Its maintenance requires the continuous organization into a single coherent whole of a wide variety of services, materials, and forces. If every member of society is to have a part in this, if each is to give and to get, if the potential resources are properly to be used, if the products are to correspond to the demands for them, the task of organization becomes a delicate one. Everywhere there must be careful measurement, nice adjustment, careful fitting. This delicate articulation of parts has been made possible by the rise of the institution of pecuniary calculation, which assigns to the satisfaction of each desire, to the use of each raw material, to each service, to each good, its definite price. Its precision makes possible the maintenance of a highly exact and articulate organization of unlike and diverse elements in an industrial order.

The prices of all things in the economic world about us constitute a definite scheme, an ordered system, not a mere aggregation of unrelated items. Were they isolated units, one might deal with them as he wished, changing some and leaving the others undisturbed; but because of their intimate connection an abrupt disturbance of one sends lines of influence radiating in all directions. To visualize the system one must first picture the vast and interlocking technique of industry of which this system is but the pecuniary counterpart. Beginning with the single article, it is evident that its price must be approximately identical with the sum of the prices of the goods and services which have gone into it. If it is itself a raw material of a more finished good, it is obvious that the price of the latter is made up by an addition to its price of the prices of its other constituent elements. Thus if the line of production be observed from the most elementary of raw materials to the most advanced of finished products it is apparent that the series of prices paralleling these processes will be highly articulate. If raw materials were consistently used in the production of separate goods, each productive process would have its complement in a price-series, but the various price-series would be independent one of another.

But even a cursory view of the technical system shows that these price-series tend to gather themselves into an organic system. A raw material, for example, is likely to be used in the production of a hundred separate products; yet, despite its varied uses, its units must command a single price. A finished product uses, not one, but many elementary materials. Each of these is produced, not from one, but from many still more elementary materials. In one direction

the line stretches fanlike back to the most elementary of raw materials, in the other to a numerous array of the most finished of finished products. The same material may enter a productive sequence at very different stages; it may enter different sequences at stages more or less removed from the ultimate products. The same goods may be used either as a finished product or as a raw material. There are many cases in which products which emerge far along the productive sequence are used in the initial stages of their own production. In view of these qualifications the straight lines of the productive sequences of the preceding paragraph are lost in a wilderness of interesting lines, adorned here and there with circles and other more complex figures. In terms of a graph, if the movements of goods in the productive system are represented by lines, the totality of technical relationships can best be represented by means of a vast and tangled network. The same figure will represent, at least for the moment, the interrelations and ramifications which constitute the price-system.

Even this complicated device, however, fails to represent the system adequately, for it transcends the current limitations of the technical system. Within it appear prices which represent goods which have not as yet been brought to any market and some of which have only a hypothetical existence. Prices there are, too, which are the pecuniary symbols of goods which long ago passed beyond human control. Thus the price-system, which in its concrete detail has but a momentary existence, embraces prices of past and future as well as present goods. In view of this a graphic illustration is impossible; it is an attempt to represent in two dimensions a thing which transcends dimensions.

Of this system one of the most important characteristics is the temporary character of its concrete reality. The momentary scheme sums up the constraints upon economic activity existing in a complicated economic order, including even many running back into the far distant past and others stretching away into the future. The detailed scheme passes, the system remains intact. Everywhere within the scheme changes in prices are occurring which tend to give a new reality to the whole.

At one extreme, for any one of a number of reasons which the reader can easily supply, the demand for finished products changes. Immediately their prices undergo change, and straightway there appears a lack of harmony between them and the prices of the goods out of which they are made. This leaves someone in possession of an unexpected profit or an uninvited deficit, affecting his judgments and actions and leading eventually to new prices for some or all of the elements of the finished goods and to a renewal of harmony.

This induced agreement in turn leads to a lack of correspondence between the prices of these elements and their constituents. Again, in like manner, and for the same reason, the same event is achieved. In this way the disturbance works its way down to the prices of the primary elements of production and in this way harmony tends to be established throughout the whole structure. At the other extreme, for reasons good and sufficient, the supplies of the primary elements of production may be changed, entailing changes in their prices, lack of harmony between them and the prices of the goods into which they enter, and eventually to a re-establishment of harmony throughout the whole structure by a similar process. Again, a disturbance may appear anywhere within the price-scheme, sending out its influences of discord and harmony in all directions.

The price-system is thus in constant subjection to two sets of forces. The first is the tendency toward disarrangement entailed by the constant appearance of price-disturbing elements at many points. The second is the tendency toward renewed coherence attending the attempts of those affected to appropriate surpluses and to escape deficits. Since both tendencies are ever operative, the system as a whole may be said to be at any moment in a state of arrested harmony. Thus the perfect coherence of the scheme is always threatening but never arrives.

The persistence of a scheme of prices is all the more fitful because the pecuniary unit of value, necessary to the coherence of the scheme, is itself a capricious standard of measurement. It is subject to constant change of value; this change may within a short period of time be quite radical. Such changes must obviously be followed by changes in the whole "level of prices," changes which require time. These are all the more disturbing because prices of goods and services respond with quite different degrees of readiness to changes in the value of the pecuniary unit.

Within the price-system not all values are in the same degree responsive to these constant disturbances. Because the scheme is never in complete harmony the disturbing influences effect their greatest changes near the points where they first enter the system. As they take their tortuous ways through the maze of interlocked prices, their force is gradually spent. Moreover, some prices can more easily withstand disturbance than others. The prices of goods and services limited in quantity and confined to a few uses may easily give way before an upward or downward pressure easily resisted by the prices of staple goods and of services in universal demand. The former, standing alone, must succumb to the shock; the latter, similarly impinged upon, are protected by the sheer weight of the mass to which they belong, the units of which must enjoy like prices. But,

even apart from their relative quantities, the prices of some goods are much more fickle than others. Thus even in our competitive system custom fixes the price of many articles, and the established price is not lightly set aside. Other prices are consciously hedged about with various devices which keep them more or less from the vicissitudes of change. Monopoly, to cite a single example, consists of devices of this kind. When the wave of disturbance strikes a price protected in this way it is likely to pass by and spend itself upon others offering less resistance. As with other elements of disturbance, the waves of price-change take always the lines of least resistance.

Within this scheme of prices which takes its origin from far-off and mysterious sources, which is always in process of being remade, and which is composed of items differing widely in their ability to weather disturbance, the members of all the pecuniary groups which make up society are forced to order their lives. It is a succession of links binding them, one by one, to an industrial system apart from which their lives and activities would be alike meaningless and impossible.

66. The Constraints of the Price-System⁴

BY WALTON H. HAMILTON

To the individual the price-system manifests itself most intimately in the immediate prices by which his wonted activities are hedged about. These include, on the one hand, the prices of his personal services and of the uses of his property, and, on the other, the prices of the goods and services which his plane of living or the requirements of his business demand. So far as the price-system affects his thought and conduct it is through its influence upon these immediate prices. It may be insisted that this influence, at least for the large number whose primary concern is with the immaterial satisfactions of life, is negligible, for the things of the spirit cannot be purchased. But, as life is organized, the means to the attainment of these things is frequently pecuniary, and they cannot be enjoyed unless material goods keep life within the body. Accordingly there are no cases of absolute indifference to pecuniary income. At the other extreme it is said that the desire for money is in itself the real incentive to all economic activity. The habitual example is the business man who amasses wealth for which he has no need. With him, however, dollars are not the motive, they are mere counters indicative of the success which he has won in the business game. Their importance lies rather in furnishing a common denominator of

⁴Adapted from "The Price-System and Social Policy," *Journal of Political Economy*, XXVI, 41-51. Copyright by the University of Chicago, 1918.

enjoyment, activity, and opportunity, a means by which human motives can be reduced to intelligible and measurable terms. It is reasonable that motives which can thus be reduced to precise statement and compared are of more weight than those whose promises are vague and distant.

So long as men are unlike creatures, so long will they respond in varied ways to the complex of motives which a pecuniary formula holds. There is, for example, the man who insists that, because the price-system is not of his making, it is not to his liking. He would dispense with it if he could; but he finds that impossible, so he grudgingly puts up with just so much of it as he must. He must conform to the extent of earning a living or accepting an income from property, the ownership of which he does not disavow. Under modern conditions the "living" is likely to include means for the attainment of other ends than mere existence. If his income is from property, its size is the measure of his freedom from pecuniary thralldom. If he pleases, he may, at least for a time, disregard this limit and live in defiance of the mandates of the price-system. But if he persists, his property flits to another who is readier to obey the laws under which he lives. A protestant is shorn of his economic power, and with it lapses his active concern with most of the things of this world. The class which defies is small and its members hold a very precarious lease upon economic life.

A second group consists of those who continue to thrive seemingly in defiance of the injunction to make money. But wilful disregard is here merely a mask that hides a careful prudence. If one is protected by a monopoly, if he has invented an inviting trademark, if he is heir to a large amount of "good will," if in any one of a number of ways he has intrenched his income against the vicissitudes of price changes, he has a reasonable degree of immunity. He may engage in doubtful experiments in welfare work, surrender hours of toil to the leisure of his workers, make contributions to charity, or engage in other practices which are at variance with the dictates of the economic man within him. But if it is to endure, such freedom has to be carefully conserved; it is possible only within the limits of the prices about him.

It is therefore within the capacious confines of the class which obeys quite regularly the demands of the price-system that most of the members of society are to be found. In common they find their incomes smaller than they like; in common they would free them from the caprice which they serve. Each must steer his wayward course with one eye upon the prices of the goods which he buys and the other upon his income from services or goods sold.

By all means the first must be kept down; by all means the second must be exalted. In view of the uncertainty of the future, to fail to claim a pecuniary advantage today is to disregard the dictates of wisdom. It may result in a failure to secure a bigger one tomorrow. or it may render that morrow insecure.

The commands, prohibitions, and restrictions which the price-system lays upon individual conduct are immediate and real, imposing restraint both upon the spending of income and the making of it. In the first case one goes to market and exchanges income for means to the pleasures, activities, and attainments which he regards as most worth while. If he has no income, obviously he gets no goods. Since existence depends upon the wherewithal to be fed and clothed, his right to live becomes a matter of public or private grace. If his income is small he can gain the means to a limited range of desired activities; as its size increases he is allowed both more goods and greater discretion in choice. If he desires a new pair of shoes, a ticket to the opera, a picture for the study, a trip to California, a new automobile, an apartment at the Ritz-Carlton, or a public library to herald his name, the matter has to be referred to the dictates of the price-system. As prices go their capricious ways responding to the vicissitude of change, he is forced to change his purchase, his activities, and even his personal habits. They may compel him to eat rice when his taste inclines to potatoes; they may require him to have his shoes mended when he prefers a new pair; they may for the season force him upon the highway in an old car, the shabbiness of which is beyond dispute. A prohibitive price of domestic labor may compel him to renounce his home and take his meals at a restaurant. To accommodate himself once and for all to a scheme of prices which drives him in many directions is not the whole of submission. Their unexpected and arbitrary changes force from him an ever new allegiance and a constant reshaping of his actions.

Great as is its authority over the spending of income, the compulsion of the price-system is even greater in the making of it. Perhaps a careful calculus which makes purchasers attend upon a detailed comparison of the values and the costs of what they buy may be a source of added enjoyments. Yet, as wants and goods become standardized, this importance shrinks, and to the great mass of men and women it appears mere penny economy. The desire of many men for more goods, more opportunities, more means of attainment, are much more likely to take the form of desires for larger incomes. It is therefore over money-making that the price-system exercises its strongest tyranny, and for this reason it is necessary to study quite particularly this influence.

Let us begin with the group charged with the management of independent business ventures. To them success or failure is written in the balance sheet. They find their activities hemmed in between the prices of the goods and services which they buy and those of the articles which they sell. By grace of high prices or low costs the business adventurer derives from his concern a surplus; by dint of low prices or high costs he has a deficit thrust upon him. Unless a surplus appears, at least for its owner, the enterprise ceases to be. If it is small, his position is precarious; as it increases, there appears room for discretion, for personal judgment, for individual whim. If one would increase output, manufacture a new product, introduce a new technique, change the organization of labor, place his goods in new markets, build a new plant, or engage in a gigantic advertising venture, experts familiar with the matters in question are consulted. They are asked, however, not for decision, but for advice. Their opinions are pertinent to, rather than sufficient for, judgment. They have to be translated into terms of dollars and cents, and final choice is reserved to those who know far more of the mysteries of the pecuniary calculus than of the intricacies of the productive process. If restraint came only from immediate prices the enterpriser might break them down and find economic freedom for himself. But the costs of many goods which he uses are but local manifestations of prices of goods used in the production of a thousand products. Over selling prices his control seems somewhat greater, but here there are also many restraints. If he has competitors, he dare not go much higher than they lest he be left without a market. If he has none, the double possibility of substitutes and of potential competition makes high prices less inviting. If his good be other than a prime necessity, there is a chance of his market being swept away by the preference of the consumer for the satisfaction of some want other than that to which his product ministers. If he sells to other producers the upper limit of price is quite a rigid one. Hemmed in thus he may seek to escape by increasing the amount of his sales. But price-lowering or extensive advertising, essential to this result, are alike expensive. They can succeed only within definite limits, for he has to compete against the allurements of other sellers. At best only the exceptional concern can expect an extraordinary share of the trade.

To this fitful tyranny of the price-system over the enterpriser many conditions peculiar to the industrial system contribute. The wide variety of the goods offered on the market presents to the consumer an endless choice. The result is that an increasing part of the industrial system is engaged in producing goods which satisfy

a capricious demand. Since establishments are built and stocked with equipment to turn out a predetermined volume of goods at the lowest cost per unit, costs do not decrease in proportion to diminished sales. While it is important to keep sales uniformly large, in few cases is this possible, for the fixed establishment is sadly at variance with the rhythm of activity in the business system. When trade is at a low ebb, small sales, attended by meager receipts, demand the utmost attention to the dictates of price. When the flood time of the cycle is on, there is no surcease, for the manager sees the double danger lurking in rapidly rising costs and in the inevitable depression whose seed prosperity is sowing.

An even more immediate incentive to obedience proceeds from the corporate character of business organization. The impersonal nature of the corporation, the theoretical separation of ownership and management, and the extreme liquidity of securities combine to make responsible managers particularly sensitive to immediate price-motives. The securities are usually owned by the members of a body more numerous than the management, living broadcast throughout the country. Few of them have any personal knowledge of the concern, its organization, its personnel, its technical processes, or the living and working conditions of its laborers. The summary of the economic, social, and moral condition of the business is usually presented to them in the double form of the value of securities and the rate of dividends. If, by grace of management, a generous dividend is forthcoming, inquisitive owners are not likely to probe far into the how and why, and those in control are assured a generous extension of power. If it fails, those who have purchased in securities merely impersonal pecuniary incomes are not likely to tolerate excuses about managerial concern for social good. Their interest in charity is too personal and too precious to be delegated to men who draw salaries for posing as business celestials. If by some mischance a management is elected which proves incurably altruistic, the stock market offers an easy egress to the analytically minded who do not wish to mix uplift with investments. If, as is more probable, particular stockholders object on moral grounds to the policy of the management, they may transfer their ownership to industries more to their liking. The change will soothe the individual conscience without interfering with the practices of the concerns involved. If managers succeed beyond their expectations, their very success evokes the law of capitalization and leads to an increase in the value of the investments upon which in future they are expected to pay dividends. Thus success, instead of bringing relief, merely renews the slavery. Because well-connected businesses

pay dividends regularly, the management is constantly under the temptation to subordinate to the amenities of the present projects which promise much in future to themselves, to the concern, and to the community. The constant opportunities of managers to speculate in the stocks of their own concerns do not diminish this temptation.

The response of enterprisers to the immediate pressure of prices involves more than the temporary well-being of the enterprises they manage. If the ultimate interests of the managers, the business ventures themselves, the laborers they employ, and the communities they supply are in accord with the demands of immediate money-making, they are likely to be served. If the lack of harmony is inconsiderable, the more immediate may be sacrificed to the less immediate value, provided business management and ownership are relatively stable. If they are out of harmony, the less immediate interests of group and community are likely to be sacrificed. No matter how promising a change in working conditions, no matter what the possibility of a proposed law, if it threatens serious interference with immediate gain it is damned. Impinged upon by conditions which they cannot control, business men have no alternative but to attempt to increase current dividends by similarly impinging upon prices not strong enough to resist their impact. To each the flood time of the cycle represents normal conditions; each can be depended upon to favor policies promising wider markets, further exploitation of natural resources, and an acceleration in the rate of industrial expansion. These are the essential demands of the group as they have found expression in social development. It is significant that they arise, not in the desires of business men, but in the institutions to which they must conform, that their end is not to advance consciously appreciated group-interests but to conserve and increase current incomes.

An extended argument seems unnecessary to show the response of professional and laboring men to similar demands for immediate income. If with the former it seems somewhat less whole-hearted, it is because the lurking traditions of the craft period and the better-formulated codes of professional ethics more rigidly confine the motive. But the establishment of bounds rather determines the nature than takes away the intensity of competition. Only where incomes are fixed and personal effort and direct pecuniary reward are divorced do we find a profound disregard to immediate pecuniary values. Professional men and laborers alike have a perishable commodity to sell and are compelled to sell it in an irregular and capricious market. The skilled laborer shares with the professional man

the further disadvantage of having to dispose of a highly specialized product. The nature of service and the character of the market beget a careful regard for current values. To the laborer especially income is a regular flow; his outgo has usually been arranged in strict conformity with that fact. Many times provision can be made for a bare month ahead; in no inconsiderable number of cases the span of economic calculation runs from Saturday night to Saturday night. The failure of an appearance of the pay envelope leaves him without the means of support and may threaten his future security. The opportunity of his children for development, for health, even for life itself, depend upon uninterrupted income. We may therefore expect the laborer and in lesser degree the professional man to take much conscious thought about current income.

It is apparent, therefore, that the class which lives under the continued and fitful sway of the price-system contains the great mass of mankind. To realize their ideals, to carry through their schemes, to thrive economically, even to continue to exist, they must be responsive to the dictates of money-making. It matters not how unselfish the individual, how unmercenary his motives, how great his concern for literature, philosophy, or philanthropy, he must live in a pecuniary society; he must attain his ends by selling and purchasing goods and services. Before he can write poetry, establish schools to teach art, or send forth missionaries to make converts to the abolition of the price-system, he must obey its commands. His aspirations may all be spiritual, he may rebel at the existence of the institution, but in the end no choice is left save obedience. This is not because he is money-mad, nor because money motivates his activities, but because he lives in a society so organized that pecuniary income is a definite and exact summary of his varied and complex assortment of motives. The constraint to subordinate welfare to wealth proceeds neither from an instinct nor a morbid desire, but from the nature of the social organization.

C. PECUNIARY COMPETITION

67. Economic Activity as a Struggle for Existence⁵

BY ARTHUR FAIRBANKS

The conditions of struggle are all but universal in society. Even writers who regard society as an organism point out a degree of competition between different functions and organs in the animal organism, and profess no surprise that with the less rigid structure of society, this competition becomes a far more important phase of all activity.

⁵ Adapted from *Introduction to Sociology*, pp. 239-54. Published by Charles Scribner's Sons, 1896.

It needs no second glance to satisfy one that the economic activity of society may fittingly be called a struggle. Follow some industrial product from the factory up to the time when it is consumed. The manufacturer of cotton goods chooses between competing places for his factory; the makers of his machinery are struggling with each other to produce most economically engines, looms, etc., that are best adapted to his work; raw products he buys from sellers competing in the open market; labor he hires from among men who bid against each other for his work; transportation companies compete with one another in cheaply transferring his goods to market; and, in the market, seller is struggling with seller for the privilege of a sale with profit; buyer and seller bargain together to agree on a price. The present century has seen barrier after barrier swept away, till the whole world enters more or less freely into the one struggle; family and social distinctions are being obliterated in the industrial world; customs and laws in restraint of trade have been set aside.

The result of this sudden expansion of the industrial struggle is to force more clearly on thinkers the fact that civilization moves, not away from struggle, but to new forms of struggle. And the efforts to deal with the many difficulties which have arisen from this sudden change make it clear that it is not by seeking to prevent struggle, but by modifying its forms, that progress will be made. Laborers who suffered in an unequal struggle have won their rights by combining and entering the struggle as a larger unit. Groups of co-operative buyers have united to do away with the petty competition of the retail store, by elevating competition to a more reasonable plane. Nor are the greatest monopolies of the day altogether free from the higher forms of pressure in the economic struggle, uncontrolled as they may seem for a time.

The change in the form of the struggle modifies the competing units. More in evidence just now is the struggle between groups determined by class lines than groups determined by territorial lines. With the passing of the dominance of individualism, the struggle, apparently, is between larger groups. The truth is that a simple struggle is being succeeded by a complex struggle between different kinds of units. The individual is freed from numerous restrictions that used to hamper him, but the competition in which he engages is limited in a new way. Not only does increasing differentiation effectively limit the number with whom he competes, but much of the burden of the struggle is shifted from the shoulders of the isolated individual to the group of which he is a member. Group competes with group, and the individual competes only with the other members of the group. The town removes many phases of the struggle for

existence from each individual, the state removes many others; but within each political unit other ends call out the energy of the individual citizen. The manufacturer, in competing with other manufacturing groups, removes from his workmen much of the stress of economic struggle, but, within definite lines, the workman has only the more bitter a battle to fight.

But no group organization has or can eliminate personal competition between the members of a group. The actual outcome of the social process in which the fit tend to survive and multiply depends largely upon the organization of a given society. With the removal of rigid barriers there has developed a more or less definite apparatus for weeding out the unfit, and advancing those who are fit for better things. In the contest for industrial position, the laborer who can most economically perform a given task is the only one to whom an employer can afford to give the task. Each industrial crisis constitutes a severe test for everyone in the industrial world; the less fit are thrown out of their place in the industrial world, wherever it may be. The so-called "out-of-work" class simply consists of those whose work cannot be utilized. During periods of industrial expansion, the man of wisdom, skill, and vigor expects advancement, because new positions are being created for which these are the only recommendation. Always, everywhere, this contest for individual position is going on.

68. Competition and Organization⁶

BY CHARLES H. COOLEY

It seems to me that the fundamental point always touched upon in questions of competition is the meaning of competition in relation to organization. What is the meaning of competition in this regard? I take it to be simply an organizing process. The world is full of various agents. These agents in one way or another are continually getting displaced in the social structure, by the death of individuals, the decay of groups and systems, etc. Some method must be found of constantly building up the organization. If there is any other method of doing this than competition in the broad sense I do not know what it is. There must be some means of comparing and selecting the agents and adapting them to their work.

Competition is not merely a cause of organization; it is also an effect. As everywhere else in the interdependent social system, we find all influences interacting, each a cause of change in the other. Organization is a cause in that it furnishes motives and standards

⁶Adapted from an article in the *American Journal of Sociology*, XIII (1907), 655-58.

and methods of competition. These things are determined by custom, by law, by public opinion, by the inherited ideas of men.

Taking these points for granted, we come to the question, What is the matter with existing competition? I should say the matter is simply that existing competition shares in the prevailing disintegration of social structures. We are all familiar with this disintegration. It is chiefly, though not entirely, economic in its origin. The result is that the standards, the methods of competition, today, are very far from being what the most enlightened human nature would desire to have them. They are what is sometimes called "individualistic" in the bad sense of the word.

Perhaps I can best indicate this by taking an example. Let us suppose that there is a ship sailing on the seas, properly manned with officers and crew. Here is an organization. It may not be apparent at first that competition is going on in this little society; but it is. If a mate does well, he may very likely get appointed captain on the next cruise, or his wages may be raised. Or again the ship may be competing with another ship across the ocean and various advantages may accrue if it succeeds. Here is a well-ordered competition in which merit succeeds. That is to say, the test of success is something for the good of society, namely, the welfare of the ship and of commerce. But suppose that the ship quite unexpectedly in the dark runs upon an iceberg. The captain and the crew are thrown into the water. The society immediately and entirely disappears. The individuals are all struggling in the water, and a new kind of competition takes place. From the good of the ship and society, it falls back on the animal instinct for self-preservation. Man becomes a mere brute under these circumstances. The customs and modes of thought that keep society on a proper level are destroyed.

Something analogous to this is widely prevalent in present society. To pass on to the question as to how competition may become better: It is by building up the social organization through competition itself and raising the level of that competition by the ordinary methods of human endeavor.

69. The Ethics of Competition

a) *The Beneficence of Competition*¹

BY CHARLES KINGSLEY

Sweet competition! Heavenly maid!—Now-a-days hymned alike by penny-a-liners and philosophers as the ground of all society—

¹ From "Cheap Clothes and Nasty," in *Alton Lake* (1850), pp. lxviii-lxix.

the only real preserver of the earth! Why not of Heaven, too? Perhaps there is competition among the angels, and Gabriel and Raphael have won their ranks by doing the maximum of worship on the minimum of grace? We shall know some day. In the meantime, "these are thy works, thou parent of all good!" Man eating man, eaten by man, in every variety of degree and method! Why does not some enthusiastic political economist write an epic on "The Consecration of Cannibalism"?

b) *The Selfishness of Competition*^a

BY S. J. CHAPMAN

I must reiterate, in order that there may be no mistake, that modern analytical economics neither assumes nor advocates selfishness. But without relegating sentiment to Saturn, we may hold that the affections do not directly enter into most business transactions. "Oh 'tis love, 'tis love, that makes the world go round," asserted the duchess in *Alice in Wonderland*. "Somebody whispered," said Alice, "that it's done by everybody minding his own business." However, among the impulses which are the motive power of business activities, the affections may play a large part indirectly. A man may work his best to make as much as possible in the interests of his family or friends, or even for philanthropic purposes. Finally it must not be imagined that, in the absence of altruistic motives, a man who works his hardest for success must be sordid. The passion of great business leaders is commonly quite other than that of the miser. Because money provides the counters which measure commercial triumphs, we are apt to go astray in our analysis. They who play cards for cowries are not mastered by a passion for cowries.

c) *The Utility of Competition*^b

To sell an equity in a business which does not satisfy one's morals seems a relic of antiquated individualism, yet any one of us would do it. We object to renting property for saloon purposes, to owning stock in patent-medicine concerns, to enjoying dividends made possible by child labor, overwork of employes, or forcing the incidence of industrial risk upon them. Regarding the issue as one of personal morality, we wash our hands by selling our holdings to others whose

^a From *Outlines of Political Economy*, pp. 17-18. Copyright by Longmans, Green & Co., 1911.

^b From "The Price-System and Social Policy," *Journal of Political Economy*, XXVI, 48, note (1918).

particular scruples do not apply to the objectionable practices. Yet such sales merely salve individual conscience; they contribute nothing to an elimination of the objectionable practices. In fact the investment market has been organized in such a way as to permit an easy gravitation of equities in property toward those whose consciences are best fitted for their ownership. One endowed with a gift of narrative might write a satirical story about a group of very virtuous individuals, each of whom happened to be left with a minority interest in a concern that engaged in practices which he disapproved. Each would set about ridding himself of his investment. Such a redistribution of equities would be effected that each would come into possession of a property whose uses met his scruples. Thus the consciences of all would be freed from their burdens and the objectionable practices would be left intact.

70. The Plane of Competition¹⁰

BY HENRY C. ADAMS

What is meant by saying that unguarded competition tends to lower the moral sense of a business community? Wherever the personal element of a service comes prominently into view, and the character of the agent rather than the quality of goods is forced into prominence, probity has its market value and honesty may be the best policy. But in the commercial world as at present organized, where the producer and the consumer seldom come into personal contact, the moral arrangements followed in the process of production are not permitted a moment's thought. All that is considered by the purchaser is the quality and the price of the goods. Those that are cheap he will buy, those that are dear he will reject; and in this manner he encourages those methods of production that lead to cheapness.

There are of course exceptions to this rule. But these exceptions do not vitiate it. There must be substantial uniformity in the methods of all producers who continue in competition with each other. Each man in the business must adopt those rules of management which lead to low prices, or he will be compelled to quit the business. And if this cheapness, the essential requisite of business success, be the result of harsh and inhuman measures, or if it lead to misrepresentation and dishonesty on the part of salesmen or manufacturers, the inevitable result must be that harshness and inhumanity will become the essential condition of success, and business men will be obliged to live a dual existence.

¹⁰ Adapted from *The Relation of the State to Industrial Activity* (1887), pp. 39-47.

The fact upon which we insist at this point is that an isolated man is powerless to stem the tide of prevalent custom, and that in many lines of business those men whose moral sensibilities are the most blunted exercise an influence in determining prevalent custom altogether out of proportion to their importance as industrial agents. Suppose that of ten manufacturers nine have a keen appreciation of the evils that flow from protracted labor on the part of women and children; and, were it in their power, would gladly produce cottons without destroying family life, and without setting in motion those forces that must ultimately result in race-deterioration. But the tenth man has no such apprehensions. The claims of family life, the rights of childhood, and the maintenance of social well-being, are but words to him. He measures success wholly by the rate of profit. If now the state stand as an unconcerned spectator, the nine men will be forced to conform to the methods adopted by the one. Their goods come into competition with his goods, and we who purchase do not inquire under what conditions they were manufactured. In this manner it is that men of the lowest character have it in their power to give the moral tone to the entire business community. One of the most common complaints of business men is that they are obliged to conform to rules of conduct which they despise. It is a necessary result of a competitive society that the plane of business morals is lower than the moral character of a great majority of men who compose it.

But what, it may be asked, can the state do in the premises? The state has done much and can do more. That code of enactments known as "factory legislation" is addressed to just this evil of competitive society, and it only remains for us to formulate for this code an economic defense. The general rule laid down for the guidance of state interference in industries was that society should be secured in the benefits while secured against the evils of competitive action. When the large body of competitors agree respecting some given method of procedure, but are powerless to follow it because a few men engaged in the same line of business refuse to conform to the proposed regulations, it becomes the province of the state to incorporate the wish of the majority in some practical law. In this manner there is established a legal plane of competition higher than that which could be maintained in the absence of legal enactment. This is no curtailment of competitive action, but a determination of the manner in which it shall take place. If the law says that no child shall be employed in factories, the plane of competition is raised to the grade of adult labor. If married women are refused employment, the nature of competition is again changed,

but competition is not restricted. As the result of such legislation some of the evils of the present system would disappear, while all the benefits of individual action would yet be conserved to society.

This, then, is one defense of interference on the part of the state. It lies within its proper functions to determine the character of such competitive action as shall take place. There must be conformity of action between competitors, and the only question is whether the best or the worst men shall set the fashion. One cannot be neutral with regard to this question. No vote at all is a negative vote; and a vote in the negative is as positive in its results as one in the affirmative. Should the state insist on following the rule of non-interference, society cannot hope to adjust its productive processes to the best possible form of organization.

We have all of us, doubtless, heard the claim that the state is a moral agency; that it is imposed with moral duties. For a number of years after this phrase came to my notice, it presented to my mind no distinct meaning. It seemed to me to cover the philanthropic purpose of shallow intellects, and to be most frequently used by men who knew not the way of guile nor anything else for certain. But properly understood this phrase contains a deep truth of social philosophy. It does not mean that the law is a schoolmaster coercing men to be good, nor that it is the depository of a social ideal to be admired; but, on the contrary, it means that the law is an agency for the realization of the higher ideals of men by guarding them from that competition which would otherwise force them to a lower plane of action, or else force them out of business. In performing such a duty the state performs a moral function, for it regulates competition to the demands of the social conscience. Under the individual may be made to coincide, in some degree, with the fundamental interests of society, and thus, by disregarding the dogma of the guiding influence of such a thought the immediate interests of of laissez faire, the fundamental purpose of those formulating the doctrine is in part realized.

D. PRICE-FIXING BY AUTHORITY

71. The Statute of Laborers¹¹

Edward to the Reverend Father in Christ, William, Archbishop of Canterbury, Primate of all England, greeting. Because a great part of the people, and especially of workmen and servants, have lately died in the pestilence, many seeing the necessities of masters

¹¹Adapted from *Statutes of the Realm* (about 1349), pp. 307-8.

and great scarcity of servants, will not serve unless they may receive excessive wages, and others preferring to beg in idleness rather than by labor to get their living; we, considering the grievous in-commodities which of the lack especially of ploughmen and such laborers may hereafter come, have upon deliberation with the prelates and the nobles and learned men assisting us, with their unanimous counsel ordained:

That every man and woman of our realm of England, of what condition he be, free or bond, able in body, and within the age of sixty years, not living in merchandising, nor exercising any craft, nor having his own whereof he may live, nor land of his own about whose tillage he may occupy himself, and not serving any other; if he be required to serve in suitable service, his estate considered, he shall be required to serve him which shall so require him; and take only the wages, livery, meed, or salary which were accustomed to be given in the places where he oweth to serve, the twentieth year of our reign of England. Provided always that the lords be preferred before others so in their service to be retained; so that, nevertheless the said lords shall retain no more than necessary for them. And if any man or woman being so required to serve will not do the same, and that be proved, he shall immediately be taken to the next goal, there to remain under straight keeping, till he find surety to serve.

If any reaper, mower, other workman or servant, retained in any man's service, do depart from the said service without reasonable cause or license, before the term agreed, he shall have pain of imprisonment; and no one, under the same penalty, shall presume to receive or retain such a one.

No one, moreover, shall pay or promise to pay to anyone more wages than was accustomed; nor shall anyone in any other manner demand or receive them, upon pain of doubling of that which shall have been so paid to him who thereof shall feel himself aggrieved; and if none such shall sue, then the same shall be applied to any one of the people that will sue. And if lords presume in any point to come against this present ordinance, then suit shall be made against them. And if any one before this present ordinance has covenanted with any so to serve for more wages, he shall not be bound to pay more than was wont; nor, under the same penalty, shall he presume to pay more.

Also, saddlers, skimmers, white tawyers, cordwainers, tailors, smiths, carpenters, masons, tilers, shipwrights, carters, and all other artificers and workmen, shall not take for their labor and workman-

ship above the same that was wont to be paid to such persons the said twentieth year.

Also, that butchers, fishmongers, innkeepers, brewers, bakers, poulterers, and all other sellers of all manner of victuals be bound to sell the same victuals for a reasonable price, having respect to the price that such victuals are sold at in the places adjoining, so that the said sellers shall have moderate gains; and if any sell the said victuals in any other manner, and thereof be convicted, he shall pay the double of the same that he so received to the party injured.

And because that many strong beggars, as long as they may live by begging, do refuse to labor, giving themselves to idleness and vice, and sometimes to theft and other abominations; none upon the said plan of imprisonment shall, under the color of pity or alms, give anything to such, so that thereby they may be compelled to labor for their necessary living.

72. The Futility of Price-Fixing¹²

BY JOHN WITHERSPOON

If you make a law that I shall be obliged to sell my grain, my cattle, or any commodity, at a certain price, you not only do what is unjust and impolitic, but with all respect be it said, you speak nonsense; for I do not sell them at all: you take them from me. You are both buyer and seller and I am the sufferer only.

I cannot help observing that laws of this kind have an inherent weakness in themselves; they are not only unjust and unwise, but for the most part impracticable. They are an attempt to apply authority to that which is not its proper object, and to extend it beyond its natural bounds; in both which we shall be sure to fail. The production of commodities must be the effect of industry, inclination, hope, and interest. The first of these is very imperfectly reached by authority, and the other three cannot be reached by it at all. Accordingly we found in this country, and every other society which ever tried such measures, found, that they produced an effect directly contrary to what was expected from them. Instead of producing moderation and plenty, they uniformly produced dearness and scarcity. It is worth while to observe that some of our legislatures saw so far into the matter as to perceive that they could not regulate the price of commodities, without regulating the price of the industry that produced them. Therefore they regulated the price of day laborers. This, however, though but one species of industry, was found to be wholly out of their power.

¹² Adapted from "An Essay on Money," in *The Works of the Rev. John Witherspoon* (2d ed.; 1802), IV, 224-26.

There are some instances mentioned at the time when these measures went into vogue, which superficial reasoners supposed to be examples of regulating laws attended with good effects. These were the regulation of the prices of chairs, hackney-coaches, and ticket-porters in cities, public ferries, and some others. But this was quite mistaking the nature of the thing. These instances have not the least connection with laws regulating prices in voluntary commerce. In all these cases the persons who are employed solicit the privilege, obtain a license, and come under voluntary engagements to ask no higher price; so that there is as complete a free contract as in buying and selling in open shops. I am so fully convinced of the truth and justice of the above principles that I think, were it proper at this time, I could show that even in the most enlightened nations of Europe there are still some laws subsisting which work in direct opposition to the intention of the makers. Of this kind in general are the laws against forestalling and regrating. They are now indeed most of them asleep; but so far as they are executed, they have the most powerful tendency to prevent, instead of promoting full and reasonable markets. As an example of our own skill in this branch a law was passed in Pennsylvania in time of the war precisely upon this principle. It ordained that in all imported articles there should be but one step between the importer and consumer, and that therefore none of those who bought from the ship should be allowed to sell again. The makers of it considered that every hand through which a commodity passed must have a profit upon it, which would therefore greatly augment the cost to the consumer at last. But could anything in the world be more absurd? How could a family at one hundred miles distance from the seaboard be supplied with what they wanted? In opposition to this principle it may be safely affirmed that the more merchants the cheaper goods, and that no carriage is so cheap, nor any distribution so equal or so plentiful as that which is made by those who have an interest in it and expect a profit from it.

73. The Problem of Controlling Prices¹³

BY J. MAURICE CLARK

The subject of price levels and their movements is a particularly fruitful field for economic fallacies, because it is so easy to think of the problem in terms of prices alone, whereas the fundamental facts are the volume of production of commodities and the sharing of

¹³ Adapted from "Prices and Price Control," in Clark, Hamilton, and Moulton, *Readings in the Economics of War*, pp. 439-41. Copyright by the University of Chicago, 1918.

these commodities among the people. Prices are only an instrument in bringing this about. A shortage of production cannot be turned into prosperity for producers in general by freedom to raise prices, and, on the other hand, the consumer cannot be saved the effects of a shortage by keeping prices down. A revolution in prices does mean increasing the cost of the war. It also makes necessary a general raising of wages, and this means friction, strikes, and stoppage of work.

It is becoming the fashion to say that in controlling prices the government is "repealing the law of demand and supply"—this statement being most often made by persons who would have some trouble in stating accurately just what the law is. It is true that prices are fixed at different levels from those which would have resulted in leaving supply and demand uncontrolled by anything save the prices that free bargaining would fix, but it is not true that prices can be fixed without any reference to the necessity of making demand and supply equal. If prices are to be kept down, it can only be by furnishing some other method than that furnished by high prices for stimulating supply and for appropriating the shortage. The attempts of governments to influence prices act within limits, and these limits are set by their ability to stimulate production and cut down consumption in other ways than by raising prices. In time of war patriotism has great power for both purposes. The Food Administration has enlisted both producers and consumers as members. However, the control of the consumer can be made more drastic and certain by working through the producer, and our typical policy seems to be to put the producer on rations, so to speak, and let him satisfy his customers as best he may. If his prices are kept down, he will have to face an excess of demand over supply, and he must handle it as best he can.

There are almost as many kinds of price-fixing as there are commodities. The mere letting of government contracts controls prices, and the concentrated buying for our Allies controls them more powerfully. There is control by agreement, as in the case of metal, control by legislation, as in the case of wheat, control by executive order, as in the case of coal, control by arbitration, as in the case of milk, and there is control of prices through control of profits, as in the case of meat-packers, flour-millers, and dealers in general. There are guaranteed minimum prices to stimulate production, and maximum prices to protect consumers. Control of profits takes as its standard a margin of so much per barrel for flour, a percentage return on capital or on sales for meat-packers, or the pre-war level for dealers in many essential commodities. Each of these policies is different from the others in its possible effects. If one price is fixed, it must be high

enough to pay the marginal producer, and thus yield high prices to those who have advantage of one sort or another. But in the case of coal the favored producers are forced to share their gains with the consumer, even though this means selling better coal at a lower price in the same market. Similarly, dealers in foodstuffs who had bought at low prices have been forced to sell cheaper than their competitors who had bought the same commodity at a different time and at a higher price. This policy is possible because the demand is strong enough to take the whole supply at the higher prices—so that the consumers who get lower prices are favored, as they would not be in an open market, by being presented with a share of “producer’s surplus.”

Many knotty questions are raised. What is a farmer’s investment in his land, and what is a fair return on it? If the land is taken at the present market value, should the farmer get 5 per cent on that value, if the farming class has for years bought land at prices as high as thirty times the worth of the net income from it? This seems obviously fair to many people, but it would lead to an endless spiral of rising prices. If a piece of land yields \$1,000 and is worth \$30,000, its owner could demand an increase in prices that would net him \$1,500. After he has got this increase his land would sell for \$45,000, or for a price that would net him \$2,250, after which the price of his land would rise again, and so on. Other problems arise in calculating investment and profits and in standardizing products. The rules on these matters which the war has given are but faint foreshadowings of what would be necessary if price control were to be general and permanent. In taking the producer’s books as they stand there is injustice, because accounting practice differs from one producer to another, and a uniform accounting system must be prescribed if this sort of unfairness is to be prevented.

In general the control of prices in war differs radically from the price control of peace times, particularly in America, and methods have been used which would seem like intolerable rough-and-ready makeshifts to one trained in the circumspect procedure of the courts and commissions. For one thing war-time control of temporary competitive gains due to shortage does not attempt to cut margins of profit nearly so fine as peace-time control of the more permanent and relatively safe gains due to a natural monopoly. The willingness of producers to co-operate has possibly enabled the government to get results by methods that could not be used permanently. But on the other hand it is also possible that something of the freedom and “get-there” quality of war-time regulation may remain to color the policies of the future. The ultimate outcome will doubtless be determined,

as the war policy has been, by experimenting and by meeting the problems of the future as they arise.

E. THE FUNCTION OF THE MIDDLEMEN

74. A Condemnation of Foresters¹⁴

Especially be it commanded on the part of our lord the king, that no forestaller be suffered to dwell in any town—a man who is openly an oppressor of the poor, and the public enemy of the whole community and country; a man who, seeking his own evil gain, oppressing the poor and deceiving the rich, goes to meet corn, fish, herrings, or other articles for sale as they are being brought by land or water, carries them off, and contrives that they should be sold at a dearer rate. He deceives merchant strangers bringing merchandise by offering to sell their wares for them, and telling them that they might be dearer sold than the merchants expected; and so by craft and subtlety he deceives his town and his country. He that is convict thereof, the first time shall be amerced and lose the things so bought, and that according to the custom and ordinance of the town; he that is convict the second time shall have judgment of the pillory; at the third time he shall be imprisoned and make fine; the fourth time he shall abjure the town. And this judgment shall be given upon all manner of forestallers, and likewise upon those that have given them counsel, help, or favor.

75. If Foresters Had Their Deserts¹⁵

BY GEORGE WASHINGTON

It gives me great pleasure to find that there is likely to be a coalition of the Whigs in your State, and that the Assembly of it are so well disposed to second your endeavors in bringing those murderers of our cause, the monopolizers, forestallers, and engrossers, to condign punishment. It is much to be lamented that each State long ere this has not hunted them down as the pests of society, and the greatest enemies we have to the happiness of America. I would to God, that one of the most atrocious in each State was hung in gibbets upon a gallows five times as high as the one prepared by Haman. No punishment, in my opinion, is too great for the man who can build his greatness upon the country's ruin.

¹⁴Adapted from *Statutes of the Realm* (about 1269), I, 202.

¹⁵From a letter to Joseph Reed, dated December 12, 1778, in *The Writings of George Washington*, VII, 282. Edited by Worthington Chauncey Ford.

76. The Function of the Middleman¹⁶

BY HARTLEY WITHERS

Anything that has been grown or made usually has to go a long way and pass through many hands before it comes into the possession of the man who finally eats it or wears it or otherwise consumes it. Every pair of hands through which it passes takes toll of it, that is to say, adds something to the price that the final consumer pays, or takes something off the profit that goes to the shareholders in the producing company, or off the wages that can be paid to the workers who made it.

Most of these intermediaries are necessary. It is easy to talk of doing away with the middleman, but when he is done away with he usually comes to life again in another form or under another name. The most clearly necessary intermediary is the transporter. There is also at least one merchant, a broker or two, and the shopkeeper who finally makes the retail sale to the consumer. Furthermore, there is another chain of people who are just as essential as the transporters—namely, the bankers, financiers, and bill-brokers, who find the credit and provide the currency to finance the movement of the stuff from place to place, and see to the consequent transfers of cash or credit.

Now we begin to see the reason for the difference, so startling at first sight, between, for example, the coal that is sold at the pit-mouth for 10s. to 12s. a ton, and costs us in London anything up to 30s. It occurs at once to all amateur economists that it would be an enormous saving if we could do away with all these middlemen and divide their gains between the producer, his workers, and the consumer. Why should not the consumer buy his coal at the pit-mouth? So he could if he were there to arrange for its carriage, and, further, if he were prepared to buy a good round mouth-filling amount, not homeopathic doses of a ton or two at a time. Also he would only buy on the alluring cheap terms one sees quoted in the papers if he contracted to take large quantities at regularly recurring intervals, so that the colliery company could be sure of disposing of its output. Further, he would have to pay for the carriage of the coal, and by the time he had done so he would find that there was a very big hole in the saving he thought he was going to effect by dealing direct with the producer.

As the ordinary consumer could not possibly buy on the scale required unless he had a large amount of capital to sink in coal and

¹⁶Adapted from *Poverty and Waste*, pp. 115-18. Published by E. P. Dutton & Co., 1914.

a large area of space in which to store it, and as he would also have to run the risk of its deterioration before he could use it, he would at once have brought home to him three services which are performed for him by middlemen, and would have to be performed by him or somebody, as soon as he did away with the middleman. These services are: (1) wholesale purchase and retail selling—the fact that the merchant is prepared to take away the coal in big blocks and store it and sell it piecemeal to suit our convenience; (2) the provision of capital to bridge the gap in time between purchase and sale; (3) the taking of the risks of deterioration in quality if the coal is not sold fast enough, and of a spell of warm weather which may knock a shilling or two off the price before it is sold.

These services would have to be paid for even if we reorganized society on a socialistic basis.

77. Middlemen in the Produce Trade¹⁷

BY EDWIN G. NOURSE

It is quite the fashion to impute to "middlemen" sole responsibility for the increases in prices which have recently occurred, and which together constitute what is usually referred to as "the high cost of living." In the words of the Massachusetts Commission on the Cost of Living: "A long line of commission men, produce merchants, jobbers, hucksters, retailers, and what-nots, simply passing goods from hand to hand like a bucket brigade at a fire, is not only inefficient and wasteful, but very costly. In these days a hydrant and a line of hose are wanted."

This is undoubtedly a vivid statement of the case, but like most figures of speech, leaves something to be desired in the way of accurate analysis. It is certainly not more than a half-truth to speak of middlemen as "simply passing goods from hand to hand." The middleman performs four distinct functions, whose value to both producers and consumers should not be overlooked.

In the first place, the middleman provides a market. He organizes the demand for all the various sorts of produce and brings it into effective touch with the producer, who is commonly in no position to find it for himself. The latter's farm or orchard is located with reference to advantages for production, and therefore far away from the markets in which he must sell his product. His abilities are too specialized in the direction of agricultural proficiency to give him the necessary commercial expertness. The time of harvesting the crop is generally the busiest season of the year, leaving the grower

¹⁷ 1915.

little time to devote to the intricate details of marketing his product. Finally, there are comparatively few producers who have a sufficient volume of goods to enable them to ship in carload units, and yet they must move in such quantities, if they are to get to market at all.

A kindred function is that of "equalization." Supplies, on the one hand, are more or less unreliable, fluctuating in quantity and quality according to the caprice of weather, pests, floods, and human nature; and demand, on the other hand, is no less arbitrary, spasmodic, and wayward. But if some central agency gathers these supplies together, classifies them into lots of appropriate size, and directs them into channels where demand is at the moment most keen, all parties are benefited. A large part of consumers' wants cannot be put in the form of definite orders some time ahead and only a small portion of supplies can be definitely promised in advance. Accordingly a clearing-house is needed, where current supplies can be offset against the day's demand.

This consideration looks over into the second division, namely, the middleman's service to the consumer. To only a small extent is the modern consumer able to connect himself directly with sources of supply. He possesses neither the facilities nor the knowledge. His elaborate market basket is filled from all over the world, from places he wots not of, and yet is replenished daily from stocks which have been brought within his daily reach. Commercial agencies of supply are scouring the world for better goods and constantly seeking better means of bringing them to the place of use and keeping them in the best condition until the time of use.

Alongside of these commercial activities of the produce dealer is a third class of service which may be called "technical"—the actual handling of the goods, storage, repacking and regrading, culling, sorting, and fitting to meet needs or whims of the buying public. It is the oft-repeated comment of the dealers that most people buy, not according to reason, but according to their prejudices; not to get nourishment, or flavor, or real excellence, but to please the eye. The extra labor and material thus necessarily piles up extra costs.

Storage is partly a technical service, but it is charged for on a time basis and so comes also under the head of financing services. This fourth class of the middleman's services is of great importance and yet is entirely overlooked by those who regard him as engaged in merely passing goods from hand to hand. When the householder buys his apples or potatoes only as he needs them, and pays for them only at the end of the month, after they have been consumed, he should not forget that someone has financed that portion of his living expenses. But the dealer goes farther back and finances the

transportation and perhaps the growing of the crop. This service doubly benefits the producer, because without it producers would be crippled, supplies curtailed, and prices advanced. This is not to say that producers may not in time arrange to finance their own operations, but so long as the middleman is called upon to do it, he is undoubtedly performing a service, which should not be overlooked when we are balancing his account with the public.

F. SPECULATION

78. The Gamble of Life¹⁸

BY JOHN W. GATES

Life is a gamble. Everything is a gamble. When the farmer plants his corn he is gambling. He bets that the weather conditions will enable him to raise a good crop. Sometimes he loses, sometimes he wins. Every man who goes into business gambles. Of course the element of judgment enters in, but the element of chance cannot be ruled out. Whenever a man starts on a railroad journey, it's a gamble whether he ever reaches his destination. All life is a gamble, you see.

79. The Twilight Zone¹⁹

BY HARRY J. HOWLAND

The stock exchange provides facilities which are used for three kinds of transactions—investment, speculation, and gambling. If the transactions on the floor belonged wholly to the first class, the exchange would be unqualifiedly good. If they belonged wholly to the last class, it would be unqualifiedly bad. It is the middle term of this trio which falls on debatable ground. Investment needs no defense; no defense will save gambling from condemnation. But speculation is in a very different case from either. Speculation is a dog with a bad name. It is possible to gibbet it along with gambling and loose living.

But is the verdict just? Is speculation an unsocial practice? Is the speculator, like the gambler, an enemy of society, a drone in the hive, contributing nothing to the general welfare? It is a convincing answer to this question that we seek.

The three processes which go on upon the floor of the stock exchange—investment, speculation, and gambling—are often inextricably mixed. It is often practically impossible to assign any particular operation without question to one of these three classes.

¹⁸ Quoted in *Current Literature*, LXI (1910?), 266.

¹⁹ Adapted from "Speculation and Gambling," in the *Independent*, LXXVI, 15-17. Copyright, 1913.

Investment, for instance, is sometimes semi-speculative in character. Here is a man who has saved a thousand dollars and wishes to lay it aside against a future need. There are many ways in which he may invest it on the stock exchange. He may buy government bonds with it. But in this case there is no chance that his principal will be increased to any degree when he comes to sell his bonds. This is pure investment.

Or he may purchase a stock which, while it pays a good rate of dividend with regularity, is subject to fluctuations in price. Here he has a paying investment with the possibility of an increase in principal when he sells out. The stock may turn out, not only a good investment, but a good speculation.

Or he may buy a stock which at present is paying no dividend at all, but which is selling at an extraordinarily low price. The value of the stock is all potential. The element of investment is totally absent from such a purchase. So investment and speculation are inextricably mixed in all kinds of operations on the stock exchange. In some, investment predominates; in some, speculation. In many the mixture is of nearly equal parts.

Again, the line between speculation and gambling on the stock exchange is hazy and indistinct. There the twilight zone is broad and clouded. This is not because any of the operations on the exchange are in form or in essence gambling operations, as betting on a horse race or playing poker. The truth is that stock exchange speculation is not gambling, but it leads to many of the same evils to which gambling leads. This statement opens up highly debatable ground. Probably the most common view is that stock speculation might more properly be called stock gambling, that speculating on the price fluctuations of stocks is no different from gambling on the fall of cards or the gyrations of the roulette ball. But there are two essential differences, while at the same time there is one essential likeness.

Speculation differs from gambling in process. In a gambling transaction if one party wins, the other party must lose. In speculative transactions it is no more necessary for one party to lose if the other party wins than it is in speculative purchase of land or potatoes or eggs. The transactions of the stock exchange are sales and purchases, bona fide, actual, complete. In each transaction each party to it gives what he wants less for what he wants more. The judgment of either or both may be bad. But it is no less a real bargain, in which each side gets value received for what he gives. Gambling, on the contrary, does not involve an exchange of values. It is a contribution of values to a central fund, the ultimate ownership of the fund to be determined by chance. True, in gambling each contributor

receives a chance of receiving all the contributions ; but he also runs a risk of losing his whole contribution. Thus the speculator receives a value in return for his stake, while the gambler does not. For the former it may not be the value that he thinks he is getting, and the value actually received may decline. But that is true of everybody who buys a commodity with a view to its increase in value, from raspberries to skyscrapers. The fact that a man's judgment as to future values may prove unsound does not throw him into the class of gamblers.

Nor does the fact that speculation on the stock exchange is largely carried on through tradings on margins and short-selling make it gambling. Both processes are common under other names throughout the commercial world. Trading on margin is buying stock, and making only a small cash payment at the time of purchase. It differs in no essential particular from buying furniture on the instalment plan, from buying land on mortgage, and from buying books by subscription. It merely involves the use of personal credit backed by security.

Short-selling is selling securities which one does not possess at the moment in the expectation and belief that they will go down in price. This action is no more gambling than that of an automobile manufacturer in contracting to sell an automobile before he has in his possession any of the materials out of which it is to be made is gambling.

Speculation and gambling, again, differ widely in the service which they render to the community. Gambling renders none. The gambler is a drone in an economic hive, a parasite in the industrial organism. Speculation renders a real, a valuable, and indeed an indispensable service. The stock exchange brings the investor and the enterprise together. It directs capital into channels of investment which the owners of the capital would never have been able to find for themselves. The speculator performs an important function for the investor by forecasting the future. Speculation is the struggle of intelligence, armed with a knowledge of the ascertainable conditions, against the blind workings of chance.

The essential likeness between gambling and speculation lies in the fact that both are attractive to those who have no business to indulge in them. Men will gamble who cannot afford to gamble, who have no skill at the game they seek to play. So, too, men will enter into speculation lacking adequate resources, adequate knowledge, and adequate judgment. For just as gambling is attractive because it holds out glittering hopes of making money without labor, so speculation

is attractive because the prizes for the successful are out of all proportion to the effort expended or to the stake put up.

The main evil which accompanies speculation lies in this participation in it of the unfit. It is not speculation in itself that is an evil, but the improper and unwise use of the speculative faculties by the ignorant and the unskilled, the insufficiently provided, the weak in judgment.

80. The Ethics of Speculation²⁰

What is speculation? How does it differ from legitimate business? A miller knows in the fall that next summer he will need a million bushels of wheat. He studies the wheat conditions throughout the world, forms the best judgment he can as to the probable supply and demand, and the prospective market price, then sends out an agent to contract with the farmers to give him next summer the wheat he will need at the price he is willing to pay. This is a legitimate business transaction, advantageous to both miller and farmer. The fact that the miller may miscalculate, and as a result make an unexpected profit or suffer an unexpected loss does not make the transaction a speculation.

A broker, who has no mill and has no use for any wheat, makes a similar calculation; he sends out his agent, buys in the fall of the farmers at an agreed price to be paid on delivery the next summer, expecting to sell the wheat in turn to the millers. This may be a legitimate business transaction. It is advantageous to farmer and miller. And in modern complicated business the service of the broker is often indispensable.

A speculator makes a somewhat similar investigation of probable demand and supply. He knows what the average crop for the last five years has been. He knows that there is an increasing demand for wheat as a food product all over the world. He gets together some cash and more credit, and plans to buy up the whole wheat supply in the United States; if necessary, the whole wheat supply of America. If he can succeed in doing this, he will have a monopoly, and can indefinitely increase the price. This is not quite so impossible as it may seem at first sight. He does not have to buy all the wheat; if he owns most of it, he can trust the owners of the rest not greatly to undersell him, and thus can largely determine the market price. He does not have to maintain the highest price for any great length of time; he has only to keep up his price until the date at which he has agreed to sell, and can often sell part before that time

²⁰Adapted from an editorial in the *Outlook*, XCII, 14-16. Copyright, 1909.

at a price sufficient to guard himself against loss. He does not have to pay cash for his wheat. He has only to contract to pay at a future day, and meantime, to raise money enough, called a margin, to save from loss the man of whom he is buying it, in case the price declines below the amount which he has agreed to pay for it.

But the speculator is not alone. Others are associated with him in his endeavor to obtain control of the wheat in the United States. There are also speculators who believe that this attempt will fail; and who are leagued together to make it fail. The former, in the jargon of the market, are called bulls; the latter are called bears. The bears agree to sell wheat on the first of May at a fixed price; the bulls agree to buy the wheat at that price. The bulls attempt to make the market price on the first of May as high as possible; the bears attempt to make it as low as possible. But the bears have no wheat to sell and do not expect to have any; and the bulls do not want any wheat and do not expect to buy any.

What actually happens is this: Mr. Bear agrees to sell, and Mr. Bull agrees to buy, a thousand bushels of wheat on the first of May at one dollar per bushel. But on the first of May the market price of wheat is \$1.10 a bushel. Mr. Bear, therefore, would have to spend \$1,100 to buy the thousand bushels of wheat which he had agreed to sell to Mr. Bull for \$1,000. Instead of doing so, he pays Mr. Bull \$100. If, on the other hand, the price of wheat has fallen to ninety cents per bushel, Mr. Bear can buy for \$900 the wheat for which Mr. Bull has agreed to pay him \$1,000. In that case Mr. Bull pays Mr. Bear \$100.

No wheat is actually bought and sold; no wheat passes from one to the other. Under guise of the contract to buy and sell, these two men, Mr. Bull and Mr. Bear, have simply made a bet as to the price of wheat on the first of May. The amount of the bet to be paid depends upon the difference between the actual market price on the first of May and the stipulated dollar a bushel.

If the reader asks, How can a bet between two dealers affect the price of wheat? The answer is, It cannot. But when hundreds of men are excitedly offering to buy wheat and other hundreds to sell wheat, and these offers to buy and sell include millions of bushels that have no existence, and the bets upon the price of wheat reach millions of dollars, the result is to create an artificial demand and an equally artificial supply, which determine the market price of such wheat as is stored in the warehouses.

The transaction is of no benefit to anyone except the successful gambler. It does not benefit the farmers; for they are interested in having a steady price for their wheat, not a fluctuating price, which

promises a great gain today and a serious loss tomorrow, and compels them to study the gambler's market if they would get a benefit of the prices, a study for which they have neither the time nor the facility. It does not benefit the millers, who might judge what the prices of next season's wheat will be, if it were dependent on supply and demand as regulated by natural causes, but cannot judge if it is made dependent on the tricks and chances of a great gambling operation.

Gambling with breadstuffs is a great deal worse than gambling with cards or dice; the gambling carried on on the produce exchange, than that carried on in the gambling hells of New York City or in the Casino at Monte Carlo. Private gambling injures only the gamblers and those immediately connected with them, and it demoralizes the few hundreds of occasional onlookers. The private gambler gets the money of his fellow-gambler for nothing, and, if the game is honestly played, gives his fellow-gamblers in return a chance to get his own money for nothing. But the public gamblers play their game with the property of their wholly innocent fellow-citizens. They gamble with the wheat fields of the farmer, the flour barrels of the miller, the bread loaves of the baker and the housekeeper. There is not a reader of these lines in America but may have suffered some injury from the gamblers in the Chicago wheat market; and the whole country looks on at the gigantic game, and hundreds of thousands of fascinated spectators are demoralized by the spectacle. These gamblers are not robbers, for they are not taking our property by violence, but they are taking it without our consent and without giving us any return for it.

81. Hedging on the Wheat Market²¹

BY ALBERT C. STEPHENS

A Glasgow miller, in February, desires to purchase 100,000 bushels of California wheat to grind into flour. The price has been tending upward. He purchases this wheat, engages freight room, and arranges to have it shipped to Glasgow. The price and freight will make the wheat cost him in Glasgow about \$1.07 per bushel. But the wheat will not arrive until September or October, five months away. By that time, following the Atlantic coast harvests, and with the then probable renewal of arrivals of Russian and Indian wheat, the Glasgow price might or might not be lower than \$1.07. In order to insure himself against loss, the Glasgow miller sells 100,000 bushels of wheat for October delivery at New York. The California

²¹ Adapted from "Futures in the Wheat Market," *Quarterly Journal of Economics*, II, 47-51. Copyright, 1887.

wheat arrives at Glasgow, but the price of wheat the world over has declined, and the miller finds that it has cost him two or three cents a bushel more than the then ruling price. Under strictly old-fashioned methods, had he not sold 100,000 bushels of wheat at New York, he would find himself at a decided disadvantage in competition with millers who had not anticipated their wants as he had. But he is not so placed. When he found the market a few cents lower, he cabled an order to New York to buy 100,000 bushels for October delivery. At the maturity of his New York speculative contracts, he finds a profit about equal to the loss on his California transaction. Thus, owing to his protective future contract, he stands no loss, despite the drop in the price of wheat. Had he found a profit on his California wheat when it arrived—that is, had the price advanced after the grain left San Francisco—he would have covered his New York sale at a corresponding loss, thus leaving him situated as before. In this way, English millers and importers of wheat, buying in the United States, Russia, or elsewhere, habitually protect such purchases from fluctuations in prices, while in transit, by selling futures against them at New York or Chicago, and later by covering their contracts. When we consider the aggregate of wheat purchases made in this country, and remember that all of these sales are in time covered by corresponding purchases of wheat, and that in all cases these speculative sales and purchases call for the actual delivery of grain, we may gain some conception of the reasons why future sales make so large a total.

But these insuring or protecting sales and purchases are by no means confined to foreigners, who buy throughout the world and ship to Europe. One may also find ample illustration at home. A New York merchant buys 100,000 bushels of hard wheat at Duluth, and orders it shipped by vessel to Buffalo, to go thence to New York by canal. He does this, not because he wants the wheat for his own use, but because he believes that, in view of known or apparent market conditions, he will be able to sell the grain in New York at a profit. With a more primitive view, he would ship this grain, wait until it arrived, look for a purchaser, and, finding one, sell the wheat for the price current on the day of arrival—say, three weeks after he bought it. If at a profit, well and good; but if the price had declined, he would sustain a heavy loss, owing to the size of the shipment. But, nowadays, the New York merchant sells 100,000 bushels of spring wheat, September delivery, at Chicago, at the date of his Duluth purchase in August. When the wheat reaches Buffalo, the price has advanced, and the millers there want part of his consignment. He sells them 25,000 bushels, and buys 25,000 bushels of spring wheat at

Chicago, September delivery, to make good the original quantity purchased. By this time he has also sold at New York 100,000 bushels, September delivery, to an exporter, and bought 100,000 bushels more at Chicago, relying on the 75,000 bushels on its way and his ability to get 25,000 bushels more, before it is demanded, to keep his engagement. When the 75,000 bushels hard wheat reach New York, the price has declined fractionally; and the owner is enabled, in consequence, to purchase 25,000 bushels at a slightly better price, relatively, than he paid in Duluth, selling 25,000 coincidentally at Chicago for September delivery. He lost on his Duluth purchase and on the 25,000 and 100,000 bushel purchases at Chicago, and on the 25,000 bushel purchase at New York. But he made rather more than corresponding gains through his sale, spot delivery, of 25,000 bushels at Buffalo, including profits on his sales of 225,000 bushels for September delivery at Chicago and New York, so that he gains on sales of 250,000 bushels, and loses on the purchases of 250,000 bushels. The transaction, as a whole, is not very profitable; but millers at home and abroad get wheat at the lowest market price on the dates of purchase, and the merchant whose sagacity, energy, and foresight led him to make a purchase, even when price conditions were unfavorable, is able to protect himself from excessive loss, without depressing the price to the original holder, and without having an incentive unduly to advance the price to the consumer.

82. The Ups and Downs of Securities²²

BY FRANCIS W. HIRST

In the first place the value of a security depends mainly upon a quality which a bale of cotton or a ton of coal does not possess. It is either actually or potentially interest-bearing. This quality is visible in a bond with coupons attached. A bond like that bought by subscribers to a Prussian state loan will have attached to it quarterly or half-yearly coupons, which can be cashed in almost any great center of finance. If the government promises to redeem the bond at the end of a definite period at par, at its maturity the bond will be worth par. In the meantime it will rise and fall according to the conditions, first of German credit, secondly of the international rate of interest. But these tendencies may be wholly or in part counteracted by antagonistic movements of an international character, for instance, a great war which destroys a vast amount of capital and absorbs vast quantities of savings. But the Prussian bond is not

²²Adapted from *The Stock Exchange*, pp. 199-210. Copyright by Henry Holt & Co. and Williams & Norgate, 1911.

likely to fluctuate much, and the limits of its fluctuations will be the more restricted the more nearly it approaches its maturity. Thus the value of a security depends mainly upon (1) the rate of interest, (2) the safety of the principal, and (3) the likelihood of the principal or the rate of interest either rising or falling. These are the main causes of a rise or fall in securities.

But the business of the stock exchange operators is to endeavor to forecast and discount in advance the natural fluctuations of intrinsic value. In the old days before the telegraph, fortunes were made by getting early information, or spreading false information of victories and defeats, which would enhance or depress the price of stocks. The first Rothschild laid the foundations of his immense fortune by getting early news of important events. Nowadays the principle is still the same, but the art of anticipation has been made much more doubtful and complicated. Telegraphs and telephones are open to all. What everybody reads in his morning paper is of no particular use to anybody in a speculative sense. Besides, many foreign governments keep large funds in London and Paris for the express purpose of supporting the market. Hence in the market for government bonds, big movements are rare.

When we come to the prices of railroad and industrial stocks the causes of movement are much more difficult to detect, and the possibilities of making large profits by inside knowledge is much greater. The newspapers may be the conscious or unconscious tools of the manipulators. In new countries the banks are likely to be a working part of the speculative machinery. Thus in the United States those who use great fortunes in finance frequently have a controlling interest in a bank. What is called a "community of interest" may be established which will control important railroads and huge industrial corporations, as well as a number of banks and trust companies. The various ways in which such a community may manipulate a susceptible market like Wall Street might be made the subject of a long and fascinating volume.

Suppose that a powerful group wishes to create the appearance of a general trade depression in the United States. To do so is not at all impossible. The controlled railways may announce and even partially carry out a policy of reduced orders for rails, equipment, and repairs. They may ostentatiously proclaim an addition to the number of idle cars. Well-disciplined combinations of steel and textile mills may declare a curtailment of production. Banks may suddenly become ultra-conservative; the open accounts and credits of small speculative customers may be closed. In this way a general feeling of despondency can be created. Stocks will fall, partly in

consequence of the action of the banks, causing a compulsory liquidation of speculative accounts, partly through the voluntary action of speculators who think that trade, earnings, profits, and dividends are likely to decline. Thus a bear market is created. The syndicate can now employ huge funds to advantage in profitable purchases of those stocks and shares which fall most and are most responsive to ups and downs. Such a policy of course represents great difficulties and dangers. It must be carried out very cautiously and very secretly, and very honorably as between the members. If it is too successful it may create a slump, or a panic, in which the community of interests may itself be seriously involved. For these and other reasons American operators and manipulators do not frequently enter upon a concerted plan for colossal bear operations. Such a scheme is unpopular. It offends public sentiment. A long bearish movement, accompanied by unemployment, reduced earnings, and economies in expenditure, produce all manner of unpleasant consequences, economic, social, and political. In fact big men often boast that they never operate upon the short side, never play for a fall.

Such a movement as that sketched above is comparatively rare, cautious, and temporary. Wall Street has of course to wait upon circumstances. Sometimes it is caught by the circumstances. But it must always try to adjust itself to economic and political conditions. A political assassination, a war, a movement against the trusts, unfavorable decisions in the courts, an unexpected downfall of the favorite political party, a catastrophe like the San Francisco earthquake—such events as these may produce an irresistible flood of liquidation against which the strongest combination of bankers and corporation men will struggle in vain. In a general scramble produced by some unexpected event there is more likely to be a general loss than a general profit. For in the history of speculation the unexpected event is usually a calamity.

Real prosperity is built up gradually. The stock exchange anticipates and exaggerates it, until the speculative fabric has been reared so high above the real foundation that a crash is seen to be inevitable. Generally speaking, because of superior knowledge, the insiders are able to unload at high levels, just as they have been able to load at low levels. So, by speculating in stocks of a national size and significance, the outside public loses more than it gains. It begins to buy when they are dear, and it begins to sell when they are cheap.

For purposes of scientific analysis we may rest the theory of stock exchange quotations upon a distinction between prices and values. Prices are temporary; values are intrinsic; they move slowly. The price represents the momentary market value of a stock or bond.

The value is the real worth, a thing undefinable and impossible to ascertain. If the real value were ascertainable and available to the public then price and value would be identical, and in the case of gilt-edge securities, the two are as nearly as possible identical. But intrinsic values themselves change like everything else in the world. They depend mainly upon (1) the rate of interest, (2) the margin of surplus earning power or revenue.

Both stocks and bonds are also affected in their intrinsic value by the money market and the relationship of the supply of capital seeking investment to the demand for capital by new flotations. The intrinsic value of common stock depends also upon the actual efficiency of the corporation, the condition of its plant, the skill of its management, and the contentment, intelligence, and industry of its whole staff.

Of course all these changeful elements of intrinsic value enter into prices. But as prices sometimes fluctuate violently, it is obvious that they must also be affected by other causes. These may be summed up under two heads: (1) False rumors, which have got about either by design or through the carelessness or mistakes of newsmongers; and (2) Rigs, pools, combinations, and other technical devices, by which the market is either flooded with, or made bare of, a particular stock or group of stocks.

83. The Functions of Exchanges²³

BY CHARLES A. CONANT

The fundamental function of the exchanges is to give mobility to capital. Without them the stocks and bonds of the share company could not be placed to advantage. No one would know what their value was on a given day, because the transactions in them would be private and unrecorded. The opportunities for fraud would be multiplied a hundred fold. The mobility for capital afforded by the corporation would be meager and inadequate if the holder of its bonds and shares did not know that at any moment he could take them to the exchanges and sell them. The publicity prevailing in stock-exchange quotations gives the holder of a security not only the direct benefit of publicity, but the opinion of the most competent financiers of Europe and America. If they were dealing with him privately, they might withhold the information. But the quoted price stands as a guide to even the most ignorant holder of securities.

The second benefit is in affording a test of the utility to the community of the enterprises which solicit the support of investors. The

²³Adapted from *Wall Street and the Country*, pp. 88-116. Copyright by the author, 1904.

judgment of experts is there expressed, through the medium of price, on the utility of the object dealt in. If an unprofitable railroad is built in the wilderness of Manitoba, the investor does not have to hunt up information on the freight and passengers carried: he has only to look at the quotations on the New York State Exchange to know at once the judgment of experts on it as a commercial venture. If the investor finds that the stocks of cotton mills are declining, he makes up his mind that there are no further demands for cotton mills. If stocks are exceptionally high, he knows that the public demands more cotton mills, and that an investment in them will prove profitable. All this information is put before the investor in a single table of figures. It would be practically unattainable in any other form. Thus there is afforded to capital throughout the world an almost unfailing index of the course in which new production should be directed.

Suppose for a moment that the stock markets of the world were closed, that it was no longer possible to learn what concerns were paying dividends, what their stocks were worth, how industrial establishments were faring. How would the average man determine how new capital should be invested? He would have no guide except the most isolated facts gathered here and there at great expense and trouble. A great misdirection of capital and energy would result. The stock market is the great governor of values—the guide which points the finger to where capital is needed and where it is not needed.

The very sensitiveness of the stock market is one of its safeguards. Again and again it is declared in the market reports that certain events have been discounted. As a consequence when the event actually happens, it results in no such great disturbance to values as was expected. Is it not better that this discounting of future possibilities should occur? Is it desirable that capital and production should march blindly to the edge of a precipice and then leap off, instead of descending a gradual decline? This discounting of the market enables the man who holds a given security to convert it into money without being ruined. It enables the prudent man to hold on to his securities and even to buy those of the frightened and more excited.

Another important influence of the stock exchange is that which it exerts upon the money market. The possession by any country of a large mass of salable securities affords a powerful guarantee against the effects of a severe money panic. If in New York there arises a sudden pressure for money, the banks call in loans and begin to husband their cash. If they hold large quantities of securities salable on the London or Paris or Berlin market, a cable order will effect the sale of these in an hour, and the gold proceeds will soon be

available. These securities prevent sudden contraction and expansion in the rate of loans. This influence of the stock market has much the effect of a buffer upon the impact of two solid bodies. Crises are prevented when they can be prevented, and when they cannot they are anticipated, and their force is broken. Securities are in many cases better than money. If a large shipment of money has to be made from New York to London, it is much more economical to ship securities of the same amount than to ship kegs of gold. Credit is forwarded by cable and the securities follow by mail. All markets are thus brought into touch with each other, and respond to a fluctuation of a fraction of one per cent, but without the confusion and crash which would ensue if every sudden pressure for money was felt upon a market naked of such securities.

There is another important consideration in this influence of the stock market upon modern society, which will perhaps gather up and bring into a clearer light some of the other points which have been made. The stock market, by bringing all values to a level in a common and public market, determines the direction of production in the only way in which it can be safely determined under the modern industrial system of production in anticipation of demand. It does so by offering the highest price for money and for the earnings of money at the point where they are most needed. It is only through the money market and the stock exchange together that any real clue is afforded of the need for capital, either territorially or in different industries. Capital is attracted to securities that are selling high because the industries they represent are earning well. Consequently there results a closer adjustment of production to consumption, of the world's work to the world's need, than would be possible under any other system.

G. THE CORPORATION

84. The Nature of the Business Corporation²⁴

BY HARRISON S. SMALLEY

Superficially considered, a corporation is an association of persons for the accomplishment of certain purposes. While non-commercial motives lead to the organization of corporations, most of them are formed with money-making ends in view. These last are called business corporations. Persons become members by acquiring one or more shares of stock, on which account they are called shareholders.

A share of stock represents an interest in the business; hence

²⁴Adapted from a textbook entitled *The Corporation Problem*, privately published in 1912.

a stockholder is an entrepreneur. All the shares of stock represent all the interests in the business; and thus if there are 1,000 shares of stock outstanding, one who owns 100 shares has a one-tenth interest in the business. A nominal value, called the "par value," is assigned by the corporation to its stock. In most cases the par value of a share is \$100, though many companies have chosen other sums. The total par value of all the stock does not necessarily equal the value of the corporation's property.

All net earnings, treated as profits, are distributed among the stockholders pro rata, and are called dividends.

The price of a share of stock depends largely upon the rate of dividends customarily paid on it. If 6 or 7 per cent per annum is paid, the price will be about par; if 20 per cent can be paid each year, the price will be far above par. But numerous other factors, for instance, the general credit and standing of the company, the apparent future prospects of industries of that type, the condition of the money market, the general business situation, all share in determining the price of the stock.

In addition to a right to dividends, the shareholder is entitled to other privileges and advantages. If the business is closed out, he has a right to his proportionate share of the net assets. During its life he has a voice in the management of the enterprise. In addition to electing the directors, the stockholders have a right to decide such questions of exceptional character as the issue of stocks and bonds, the amendment of the corporate charter, the dissolution of the business, etc. Aside from these few extraordinary matters, the stockholders are without power, for the affairs of the company are in the hands of the directors, who, once elected, may manage the business as they see fit. All that the stockholders can do if not satisfied is to wait until the next annual meeting and then replace the directors with others.

In stockholders' meetings each stockholder has one vote for each share of stock held by him. In voting for directors he has as many votes per share as there are directors to be elected. Thus, if five directors are to be elected and he holds one hundred shares, he has five hundred votes. These he can distribute in any way he sees fit. He can cast all for one candidate, one hundred for each of five, or otherwise. This is called cumulative voting. He is privileged to vote by proxy.

In a majority of corporations, most of the stockholders take no active part. The control of the corporation is highly autocratic rather than democratic in character. Many corporations have thousands of members. Yet almost always it is dominated by less than a dozen

men, who may own only a minority of its stock. Few persons attend the annual meeting of the stockholders. Parties particularly interested collect proxies of absent members. Thus it is relatively easy for a management to perpetuate its control and to carry out its policies.

In many corporations the stock is of two classes, common and preferred. The leading difference is that dividends at a certain fixed rate must be paid on the preferred, before any can be declared on the common; but usually there are also other differences. If the business is closed up, the preferred stockholders usually have a prior claim. Not infrequently there is a difference in voting rights. In some cases preferred stockholders cannot vote unless their dividends are in arrears. In other cases the preferred stockholders are entitled to elect a certain number of directors, and the common stockholders the rest.

Cumulative preferred stock is stock upon which, in addition to current dividends, all arrears of dividends must be paid before any dividends can be declared on the common.

A corporation usually puts out bonds. The bond does not represent an investment in the business; it simply evidences a debt owed by the corporation to an outsider. A bond is, in effect, a formal promissory note, a promise to repay money with interest at a certain per cent. The bondholder is not an entrepreneur, but simply a capitalist. In consequence he has no vote in corporate affairs. Bonds are almost invariably secured by a mortgage upon a part or all of the corporate property. All the stocks and bonds of a corporation are known as its securities, and the sum of the par values of all the securities is called the "capitalization" of the corporation.

If a corporation is unable to pay interest on its bonds, or is otherwise insolvent, the proper court will, on application, appoint a receiver, who, as a temporary officer of the court, takes charge of the corporate property and business. In these days it is deemed inexpedient to terminate an established enterprise, except in rare cases, and the receiver continues the business and attempts to build it up.

While the receiver is thus engaged, the security holders form one or more "reorganization committees," to put the corporation on a sounder basis. They must raise money to pay off back debts. Generally they must scale down the capitalization, so that the earning power will cover the bond interest and also a fair rate of dividends. This means that existing security holders must allow a portion of their securities to be cancelled, and the struggle to see how much each class of security holders will sacrifice is often long and bitter. Preferred stockholders suffer more than bondholders, and common

stockholders more than preferred. Sometimes the stockholders are wholly "frozen out."

A corporation can be formed only with the consent of the government, and upon such conditions as the government may prescribe. The instrument, granted by the state, and specifying the terms and conditions upon which the corporation may engage in the business for which it is organized, is called the charter. In this country the legislative branch of the government has always exercised the function of creating corporations. According to "general laws," now universally in force, any group of persons, not less in number than a fixed minimum, can become a body corporate under the conditions laid down in the law.

A few striking facts will show that in the eyes of the law the corporation is an entity distinct from the stockholders, having a legal status and legal rights and liabilities of its own. First, the corporate property belongs to the corporation itself, not to the members; a change in membership does not disturb the title. Second, a corporation's contract is not the undertaking of its members. Third, the transfer of shares by the members has no effect upon the life of the corporation.

Lawyers and judges have regarded the corporation as an artificial person. The trouble resulting from that concept has been evident in connection with the penal laws concerning corporations. We have attempted to punish the corporation for violations of law, when it is evident that in every offense the real actors are human beings. To inflict a fine on a corporation is to lay a burden on the whole body of stockholders. In reality a few men committed the offense. Such a method of corporate punishment is, therefore, as unjust as it is ineffectual. Consequently there has arisen the saying "guilt is personal," and we are now beginning to attack the responsible individuals themselves.

The true view of the corporation would seem to be that it is an imaginary entity which serves the association of persons as a convenient instrument through which they may conduct their business.

85. Corporate Distribution of Risk and Control²⁵

BY W. H. LYON

The corporation makes possible a parceling-out of the incidents of ownership in many combinations, an allotment of management, risks, and income in varying proportions. The line of apportionment becomes very flexible.

²⁵Adapted from *Capitalization: A Book of Corporation Finance*, pp. 6-16. Copyright by the author. Published by Houghton, Mifflin & Co., 1912.

The corporate form marks the line of division of management into administration and control. Shareholders possess control, but through directors delegate administration to officers. Varying rights given special classes of stock make a widely varying apportionment of income, control, and risk. Common stockholders accept a maximum of risk in expectation of a maximum of income. They may share the incident of control equally or in varying proportions with other classes of stock. If two classes of stock enjoy exactly equal rights, except that one has preference as to income, they do not divide control, but risks, and the combination of control plus risk in one as compared with the combination of control plus risk in the other makes the ownership represented by one class entirely different from the ownership represented by the other.

We may speak of these divisions and combinations of income, control, and risk, creating different kinds of ownership, as horizontal divisions. But there is another division of ownership, that represented by the number of shares of stock or the number of bonds. It makes a division into amount of ownership rather than kind, into quantity rather than quality, a perpendicular division.

Now these two kinds of division of ownership accomplish two very different results. The perpendicular division of amounts of ownership makes possible the fitting of every man's pocketbook or financial ability. The horizontal division into kinds of ownership results in an even more difficult fitting, that of his type or state of mind. For one man may be more or less willing to take a chance than another. The same man may be more willing at one time than another. He may be unwilling to take any risk without having some control.

A corporation's stock regularly carries the largest share of present control and also regularly the largest share of risk. The stock may itself divide into two or more classes having obviously divergent interests, with the result that each class will exercise for different purposes the amount of control it possesses. If there is common stock and preferred stock with a limited dividend, the common shareholders may throw their influence in favor of a more hazardous conduct of the enterprise with an expectation of greater profit accruing to them. Since the preferred stockholders get only limited dividends, they will throw their influence in favor of a safer conduct of the business. Interests of both classes of stockholders might coincide. If the corporation should not earn enough to pay full dividends on preferred stock, the preferred stockholders might desire the more hazardous conduct of the business. If the amount of preferred and common were the same, and each had the same

voting power, each class would enjoy control equally. In practice this might not lead to a dead-lock in policy, for one shareholder owning a large amount of common and a small amount of preferred might vote his preferred in favor of his common. If the amount of common were twice as great as the amount of preferred, and a share of each class had the same voting rights, the quality of control would in a way differ just as truly as if the amounts of each class were equal but a greater voting power were given the common than the preferred. In either case the common shareholder in a clash of interests would be more likely to have the corporation's policy incline to his advantage.

A corporation having only one class of stock, and no other securities, offers the simplest type. Such a security carries all the control, all the income, and all the risk. It effects only a vertical division of ownership. This form is proper if a satisfactory division of income, management, and risk cannot be made. A mining company especially cannot well divide the peculiar hazards of the enterprise. Since any class of mining securities must retain so much risk, investors will not sacrifice anything of income or control. So it follows that nearly all mining corporations, including oil companies, have only one class of stock and no other securities. Coal-mining companies have issued bonds to some extent, but this business rests upon a more assured basis than mining for metals. Manufacturing companies frequently issue no securities but their common stock. This is probably due to the fact that they are engaged in established kinds of business and follow the precedents set by the older partnerships. So far our financial ingenuity has directed itself for the most part to the comparatively new forms of business, railroads and other public-service corporations. With the coming of the big industrial concerns more complex forms of financing appear, and will probably make their way generally into industrial corporations. Though a holding company may have only common stock, that fact does not necessarily imply simplicity, for the subsidiary companies may have complex capitalizations.

86. The Management of the Corporation²⁶

BY WESLEY C. MITCHELL

The classical economist assumed that there stood at the head of the typical business enterprise a capitalist-employer, who provided a large part of the capital invested, assumed the pecuniary risk, performed the work of superintendence, and pocketed the profits. Many

²⁶Adapted from *Business Cycles*, pp. 32-34. Copyright by the author, 1913. Published by the University of California Press.

enterprises of this versatile type remain today ; but the extraordinary growth in size and influence of the joint-stock company has given greater prominence to another form of business management.

The large corporation, dominant in business today, is owned by a miscellaneous and shifting body of stockholders. The funds required for fixed investment are provided in some measure by these owners, but in larger part by bondholders, who may or may not own shares as well as bonds. The work of management is usually dissociated from ownership and risk. The stockholders delegate the supervision of the corporation's affairs to the directors and they turn over the task of administration to a set of general officers. The latter are commonly paid fixed salaries.

In such an organization it is difficult to find anyone who corresponds closely to the capitalist-employer. Neither the typical stockholder, who votes by proxy, nor the typical director, who gives his attention to routine affairs, fills the bill. The general officers, remunerated largely by salaries, and practicing among themselves an elaborate division of labor, have no such discretion and carry no such risk as the capitalist-employer. The latter has, in fine, been replaced by a "management," which includes several active directors and high officials, and often certain financial advisers, legal counsel, and large stockholders who are neither directors nor officials. It is this group which decides what shall be done with the corporation's property.

In other cases, however, a single enterpriser dominates the corporation, and wields full authority. The stockholders elect his candidates, the directors defer to his judgment, the officials act as his agents. His position may be firmly entrenched by an ownership of a majority of the voting shares, or may rest upon personal influence over the owners of voting shares. In the "one-man" corporations the theoretical division of authority and function becomes a legal fiction. Practically the dominant head corresponds to the old capitalist-employer, except for the fact that he furnishes a far smaller proportion of the capital, carries a far smaller proportion of the pecuniary risk, and performs a far smaller proportion of the detailed labor of superintendence. These limitations do not restrict, but on the contrary enhance, his power, because they mean that the individual who "owns the control" can determine the use of a mass of property and labor vastly greater than his own means would permit.

While the corporate form of organization has made a theoretical division of the leadership of business enterprises among several parties at interest, it has also been possible to practice a centralization of power. The great captains of finance and industry wield an

authority swollen by the capital which their prestige attracts from thousands of investors, and often augmented still further by working alliances among themselves. Among the enterprises of the whole country, this small coterie exercises an influence out of proportion not only to their numbers but also to their wealth. The men at the head of smaller enterprises, though legally free, find their field of initiative limited by the operations of these magnates.

In large corporations the few individuals in control have an opportunity to make money for themselves at the expense of the enterprise itself, or at the expense of the other parties at interest. By giving lucrative contracts to construction or repair companies in which they are interested, by utilizing their advance information of the corporation's affairs for speculation in the price of its shares, by rigging its accounts for the same purpose, by making loans or granting rebates to other companies in which they are interested, it is possible for an inner ring to make profits out of wrecking the corporation. There are certainly instances enough to invalidate the easy assumption that every business enterprise is managed to make money for the whole body of its owners.

87. The Function of the Corporation²⁷

BY J. B. CANNING

The function of the modern business corporation, as a form of business organization, is to increase the productivity of invested capital and to facilitate and stimulate saving. The peculiar ability of the corporation to perform this function is due to its unique combination of legal rights and privileges which allow: (1) indefinitely minute division of its certificates of ownership (stocks) and of its certificates of indebtedness (bonds); (2) limitation of liability of its members (stockholders); (3) the distribution of the risks of industry, by means of issues of different classes of stocks and of bonds, among its members and creditors; (4) the delegation by its members of the power to direct and administer its business policy to its responsible agents, the directors and officers; and (5) an easy means for transferring ownership of its securities from one investor to another. None of these rights, by itself, is peculiar to the corporation. Partnership with limited liability and joint-stock companies possess them in part, but no other form possesses quite so advantageous a combination of them.

To a saver investing his accumulations of capital to secure an income, the value of a nominal income of given amount, rate of flow,

²⁷1915.

and time of accrual, becomes greater as the possibility of loss is minimized or limited and as the probability of gain is increased. In general, the greatest loss possible to an investor in the stock of a corporation is limited to the sum paid for the issued, and fully paid, stock. For, unlike the condition found in the ordinary partnership, all of whose members are agents of the firm and each of whom is, therefore, unlimitedly liable for any and all obligations incurred in the course of the firm's business by any other member, the corporation is, itself, a legal person and its stockholders are not its agents nor are they bound to it by any legal obligation other than that of paying for the stock its full subscription value. To a stockholder, therefore, the ability and integrity of other stockholders is a matter of no concern save as they possess the right to vote for directors and, indirectly, for officers, both of whom are agents of the corporation. Since the latter are agents of the corporation and not of the stockholders, they cannot incur obligations for which the stockholders are liable.

The fact that a corporation may, and many do, issue bonds in convenient denominations, amply secured, as to their so-called principal, by tangible wealth and, as to their income, by net earnings considerably above the amount required, makes it possible for the small investor with little knowledge of the company's probable total earning capacity to invest his savings in what is, humanly speaking, a certain income. The same corporation may issue another class of security, preferred stock, which generally has a first claim upon assets and upon income after the claims of the bondholders are discharged. Upon these stocks a definite income; usually larger than that paid the bondholders, is promised—an income that may be, and often is, secured by net earnings considerably in excess of the amount necessary for the purpose. Purchase of this stock enables the investor who has a more intimate knowledge of the company's affairs and prospects to secure a larger income without necessarily incurring greater risk. The ability of the corporation to issue still another class of security, common stock, which has a residual claim upon assets and upon income after all claims of the holders of bonds and of preferred stocks have been met, allows still another class of investors who have the most intimate knowledge of the company's affairs, and who are most willing to incur risks, to secure an income objectively less certain but with no maximum limit other than the earning capacity of the company. The ability of the corporation thus to issue any number of classes of securities, each with a different rank as to priority of claims upon assets and upon income,

allows for any relative distribution of risks and of rewards that promises to please the investing public best.

In addition to the limitation of liability, which, in general, limits possible loss to the amount paid for an issued and fully paid stock, and in addition to the possibility of selecting from a given corporation's securities one carrying little appreciable risk, the investor has another, and very important, means of reducing the risk of large loss, viz., he may distribute his investment among the securities of several corporations engaged in different kinds of enterprise and located in different parts of a country or in different countries. Since stocks may be issued in denominations as small as desired, and since a stock certificate represents an undivided interest in income and assets, it must be obvious that the total loss of an investment distributed widely over the field of industry and apportioned judiciously among the existing industries and corporations can scarcely occur short of a catastrophe involving the general collapse of economic activities. Furthermore, the simple and direct means of transferring ownership of corporation securities makes it easy for an investor, if he loses faith in a concern in whose securities he has invested, or if he learns of some other concern that promises better returns, to transfer his funds to another enterprise. Incidentally this ease of liquidation makes corporation securities highly acceptable as collateral for loans. Since the minimizing of risk increases the value of a prospective income, all these attributes of the corporation operate to offer the investor a larger reward for saving and, in consequence, tend to increase the amounts saved.

The attributes of the corporation above discussed are economically advantageous whether the scale of industry be large or small, but in the field of large-scale industry the corporation possesses a superiority of another sort. We have said that the investor may distribute his investment over a wide range; the converse of this statement is also true, viz., a new enterprise, however great, may draw funds in small amounts from a great number of investors. This makes it possible to gather together the smallest accumulations as fast as they are made and to put them to immediate use in those new enterprises that promise the greatest gains no matter how great those new enterprises may be. This result is usually accomplished through the agency of savings banks, trust companies, insurance companies, and other financial middlemen, who either advise the individual in his choice of securities or else make the investment in their own names from funds loaned them at interest by the saving public. As a consequence of this aptitude of the corporation for

accumulating large amounts from small savings, managerial ability, mechanical labor, and machine processes may be so co-ordinated as to enhance to the greatest possible degree the productivity of the capital saved.

The advantages of the corporation are readily seen, then, to be both interacting and cumulative. The productivity of capital is increased by the choice and co-ordination of productive factors rendered possible by large-scale industry. Accumulated capital is put to immediate use where it is most productive. The value of the increased income is enhanced by the limitation and distribution of risks. All these work together to stimulate and to accelerate investment.

H. THE ORGANIZATION OF TRADES

88. Competition and Association²⁸

BY HENRY CLAY

What effect has the pressure of competition on the relations of the firms and individuals that make up the business community? We can usually trace the effect of any continuous pressure in the structure of a body; we can do so in this case in the structure of economic society. Competition gives rise to a series of conflicting interests and a series of common interests among competing firms. The conflicting interests lead them to stand alone, the common interests lead them to associate. Thus, according as we look at it from the point of view of the conflicting or the common interests, we shall see society as an assembly of competing or an assembly of associated units.

First the conflicting interests. The different trades compete, forward for society's income, backward for the agencies of production and the service of the transport, power, and implement industries. What one has, another cannot have. Districts and countries compete for custom—for the market, as we say—and for raw materials and other requisites of production. In each trade at each stage, the different firms compete, each anxious to get as big a share of the whole trade as possible, each anxious to get its materials and the means of production specialized to its business as cheaply as possible. The individuals of society compete with one another in two capacities; they compete as consumers and they compete as producers. As consumers they could all probably do with more than they get; they would all certainly prefer to pay the lowest price for their goods at which they could get them if they were the only consumers for them.

²⁸ From *Economics: An Introduction for the General Reader*, pp. 119-22. Copyright by Macmillan and Co., 1916; by the Macmillan Co., 1918.

Similarly they compete as producers; each has some labor to sell, or else the use of some land or capital. The price each can get depends upon the price that other people will accept for their labor, land, and capital. Thus everywhere we find the conflicting interests which we commonly associate with the word "competition," and, because this conflict of interests is so obvious, we are inclined to forget or ignore the correlative community of interests which the conflict creates.

How does competition create a community of interests? It does so by its influence upon prices. Competition to sell tends to force prices down, competition to buy tends to force prices up. The mere existence of an alternative seller is a check on the power of any seller to exact the price he would like; the mere existence of an alternative buyer is a check on the power of any buyer to buy as cheap as he would like. The worker's income depends upon selling labor at a high price and buying commodities and services at a low price; it is the competition of other workers that keeps down the price that he can get for his labor, the competition of other consumers that keeps up the price of other commodities and services. Similarly with landowner and capitalist; it is the competition of other landowners and capitalists that hampers their efforts to get a higher price for the use of their land or capital. So with industries; the competition of other industries is the check on the prices they can charge; at the same time it is the check on their power to beat down the other trades, the workers, the capitalists, the landowners, from whom they buy materials and aids to production. Inside any one industry it is the competition of other firms which hampers each firm in its efforts to sell its products dear and buy its labor and its materials cheap. The members of each economic group or class therefore have a common interest in extinguishing or restricting competition within the group or class.

Thus we get the common interests of all the traders in one district as against the traders of another district. Free traders and protectionists agree as to the desirability of getting as much trade for their country as possible, they differ only to the means. As all the citizens of a country have a common interest in that country's prosperity, so have all the members of a town or industrial district in that town or district. So too we get "the interest of the trade." All the persons connected with the cotton industry have a common interest in inducing the public to prefer cotton to woolen shirts. Within the boundaries of their trade they may quarrel among themselves as to the disposal of the price of the shirts, but they are united in their hostility to wool or linen. They all, from the humblest oper-

ative to the biggest manufacturer, stand to gain by a growth in the demand for cotton goods.

Within each trade, again, while there is conflict between the different firms at every stage, the stages have each a common interest which will somehow serve as a basis for common action. Manufacturers all agree that retailers get more than their fair share of the profits of an industry, and they will all act together to prevent their exaction. The retailers, on the other hand, will form retailers defense leagues to protect themselves against the exactions of the manufacturers. All the firms at each stage of a manufacturing process from the preceding stage and in selling their work as dear as possible have a common interest in getting as cheap as possible what they take to the succeeding stage. To come to individual firms, while employer and employed do not always constitute a happy family, they have some interest in common. The employer wants as big a share of the trade as possible, and his employees stand to gain if he succeeds. They may get no bigger wages than they would get if the firm were unsuccessful, but they gain something in regularity and security of employment. When we come back to the final agents of production—land, labor, and capital—while landowners compete with one another, laborers with one another, and capitalists with one another, no one who is interested in politics is likely to forget that there is a “landed interest,” a “capitalistic interest,” and a “labor interest.”

Thus everybody in our present economic society stands in two relations to the other members of the society, in a relation of conflicting and in a relation of common interest. Both these relations spring from the same cause—the prevalence of what, for want of a better word, we call “competition.” Competition tends to force us to struggle, fight, conflict with our neighbors; the desire to relieve ourselves from the pressure of competition compels us to combine, associate, co-operate with our neighbors. We associate with our competitors in one economic group, in order to compete more effectively with other groups.

89. The Relations Between Trades²⁹

BY JOHN A. HOBSON

Let us consider the nature of the bonds of harmony and of repulsion among trades.

1. The closest relations of common interest will evidently exist between trades which draw upon some single source of supply of raw materials or productive power.

²⁹Adapted from *The Industrial System*, pp. 28-31. Copyright by Longmans, Green and Co., 1910.

All trades whose chief material is wool or leather, or timber or steel, pulling at some common supply, must look closely after one another. Anything which increases or reduces the common supply affects them all alike, so that there is community of interest. Anything which gives one of them a better pull upon the supply than the others affects these latter injuriously, so far as there is diversity of interest. The same evidently holds where a number of local manufacturers are dependent for coal or other source of power upon the same supply. Dependence upon some subsidiary material or other trade accessory will set up a similar relation, important or trivial, according to the part played by such material in the respective trades.

2. Trades that are complementary or subsidiary to one another in some direct way are, as we have seen, in the closest harmony. The coal and iron trades are the largest, most obvious instance, but every art of production throws a number of trades into similar dependency on one another. Whenever a number of materials must be put together to make a commodity, such direct unity of interest is established among the trades that handle each material. Such are the relations between the fruit-growing and the sugar-refining trades, between the wine-growing and the bottle-making trades, between the various trades which go to feed, with materials, the building trades.

3. Where two sorts of material or two sets of processes are alternatives for production, a keen antagonism exists between them. Here we first come across the relation known as substitution, which plays so important a part in industrial progress.

Bedsteads are made from wood or steel, so are many other articles of furniture or fittings; sugar may be made from cane or beet; cotton, linen, wool are alternatives for many kinds of dress or other fabrics; electricity, gas, oil, steam are competing against one another as sources of industrial, locomotive, or domestic energy. Just here we are not concerned with the choice between different sorts of goods which satisfy the same want, but with the choice exercised by producers between different materials and processes which can be substituted for one another on some business process. The choice exercised by the consumer has generally some influence in the selection of material or method of production, as, for instance, in determining the alternative use of wood, vulcanite, or amber, in making pipstems.

But as the law of substitution opens up, we get glimpses of a wider, more general sympathy and opposition among trades. The productive energy of man, directly operative through labor, indirectly through capital, is within certain limits free to choose among

all the various channels of industry. They are all open to him as alternative occupations. So there is a more universal sympathy and opposition between all trades than any yet named. All causes affecting the volume, fluidity, and efficiency of the capital and labor in a community will affect all trades in common. In proportion as labor and capital are free to enter several trades, and even to transfer themselves from one occupation to another, they must be regarded as forming a common fund of industrial energy which pulsates through the whole framework of industry, as the blood courses through the various veins. Though the flow of labor and of capital is far from free and is impeded by many economic barriers, there is enough fluidity to give a real unity to the terms "labor market" and "market for loanable capital." Capital and labor can flow into various channels of production with sufficient freedom to make every trade sensitive to the expansion and contraction, the prosperity and depression of every other trade.

But trades are connected, not only through common interests in processes of production, but through changes in methods of consumption. The "standard of comfort" of different classes is constantly changing. Every rise or fall of wages alters the proportion of working-class incomes spent on different commodities, and so distinctly stimulates or depresses groups of trades. The great change from rural to city life has revolutionized the expenditure of large masses of our population. New articles of consumption or the cheapening of old articles, which brings them in reach of poorer classes, create or stimulate new tastes which not merely absorb new increments of income but displace older articles of consumption. Taste, fashion and caprice constantly exert a larger influence on the expenditure of larger sections of the public. Every article of a man's consumption is in a sense competing with every other article for a larger share of his expenditure.

Any change in standards of consumption brings other changes by reason of affinity. The rapid spread of the taste for cycling which followed the invention of the safety bicycle, besides its direct competitive effect upon the use of riding horses and the carriage trade, had a large number of clearly traced subsidiary effects, reducing the sale of cheap pianos and jewelry, damaging the book trade, altering the nature of the clothing trades, and reviving the country inns. You cannot touch the consumer at any point in his expenditure without altering in countless seen and unseen ways his whole standard of valuations and, through alterations of this standard, affecting the entire series of industrial processes which support it.

Thus the growth of harmonious and conflicting desires of consumers weaves the closest and most intricate network of relations among all the various productive processes of the industrial world. The closer we examine any section of the industrial system, the more numerous and complex become the relations between the businesses, the trades, and the groups of trades contained in it. The ramifications come to resemble those which the microscope displays in the section of a leaf or a bit of animal fiber.

As we recognize the fineness of these relations, we come unconsciously to shift the metaphors we use, and to regard industry less as a stream or a machine and more as a living organism with something like a common flow of blood, a common system of nerves, and an organic co-ordination of parts resting upon a complexity of business cells. None of these metaphors is strictly applicable: industry is neither river, machine, nor organism, but there are many points in which the last term gives the most correct impression. If we could follow out far enough the ties between businesses and trades and trade groups in what we call the industrial world, we should find a sort of common connective tissue running throughout, thinner and coarser in some parts, stouter and finer in others, but binding the whole set of industrial operations so closely together that any touch bestowed at any point may be communicated to the most distant parts

90. The "Planlessness" of Production³⁰

BY WESLEY C. MITCHELL

With technical experts to guide the making of goods, business experts to guide the making of money, lenders to review all plans requiring large investments, and government to care for the public welfare, it may seem that the money economy provides a staff and a procedure adequate to the task of directing economic activity, vast and difficult though that task may be. This impression is strengthened by observing that each class of business leaders is spurred to efficiency and deterred from recklessness by danger of pecuniary loss. The engineer who blunders is discharged, the enterpriser who blunders goes into bankruptcy, the lender who blunders loses his money. Thus the guides who misdirect the industrial army are always being eliminated. On the other hand, those who succeed are constantly being promoted to posts of wider power.

With this powerful stimulus of industrial efficiency, the money economy unites an opportunity for co-operation on a grand scale.

³⁰ Adapted from *Business Cycles*, pp. 37-40. Copyright by the author, 1913. Published by the University of California Press.

By paying money prices, the lenders can enlist the aid of laborers who contribute work of all kinds, of expert advisers who contribute special knowledge, of landlords who contribute the uses of their property, and of investors who contribute the uses of their funds. And all these classes can be made to work in disciplined order toward the execution of a single plan.

The union between encouragement of individual efficiency and opportunity for wide co-operation is the great merit of the money economy. It provides a basis for what is unquestionably the best system for directing economic activity which men have yet practiced. Nevertheless, the system has serious limitations.

1. The money economy provides for effective co-ordination of effort within each business enterprise, but not for effective co-ordination of effort among independent enterprise.

The two schemes differ in almost all respects. Co-ordination within the enterprise is the result of careful planning by experts; co-ordination among independent enterprises cannot be said to be planned at all; rather is it the unplanned result of natural selection in a struggle for business survival. Co-ordination within an enterprise has a definite end—the making of profits; co-ordination among independent enterprises has no definite end, aside from the conflicting aims of the several units. Co-ordination within an enterprise is maintained by a single authority possessed of power to carry its plans into effect; co-ordination among independent enterprises depends upon many different authorities contending with each other, and without power to enforce a common program except so far as one can persuade or coerce others. As a result of these conditions co-ordination within an enterprise is characterized by economy of effort; co-ordination among independent enterprises by waste.

In detail, then, economic activity is planned and directed with skill; but in the large there is neither general plan nor general direction. The charge that “capitalistic production is planless” therefore contains both an important element of truth and a large element of error. Civilized nations have not yet developed sufficient intelligence to make systematic plans for the sustenance of their populations; they continue to rely upon the badly co-ordinated efforts of private initiative. Marked progress has been made, however, in the skill with which the latter efforts are directed.

2. But the managerial skill of business enterprises is devoted to money-making. If the test of efficiency in the direction of economic activity be that of determining what needs are most important for the common welfare and then satisfying them in the

most economical manner, the present system is subject to a further criticism. For, in nations where a few have incomes sufficient to gratify trifling whims and where many cannot buy things necessary to maintain their own efficiency, it can hardly be argued that the goods which pay best are most needed. It is no fault of business leaders that they take prospective profits as their guide. They are compelled to do so; for the men who mix too much philanthropy with business soon cease to be leaders. But a system of economic organization which forces men to accept so artificial an aim as pecuniary profit cannot guide their efforts with certainty toward their own ideals of public welfare.

3. Even from the point of view of business, prospective profit is an uncertain flickering light. Profits depend upon two variables, on margins between selling and buying prices, and on the volume of trade. These are related to each other in unstable fashion and each subject of perturbations from a multitude of unpredictable causes. That the system of prices has its own order is clear; but is it not less clear that the order fails to afford certainty of business success. Men of long experience and proved sagacity often find their calculations upset by conjunctures which they could not anticipate. Thus the money economy confuses the guidance of economic activity by interjecting a large element of chance into every business venture.

4. The hazards to be assumed grow greater with the extent of the market and with the time that elapses between the initiation and the fruition of an enterprise. But the progress of industrial technique is steadily widening markets, and requiring heavier investments of capital for future production. Hence the share in economic leadership that falls to lenders, that of receiving the various chances offered them for investment, presents increasing difficulties. And a large proportion of these investors, particularly the lenders on long time, lack the capacity and the training for the successful performance of such work.

These defects in the system of guiding economic activity and the bewildering complexity of the task itself allow the processes of economic life to fall into those recurrent disorders which constitute crises and depressions.

V

PROBLEMS OF THE BUSINESS CYCLE

Under the simple conditions assumed in the last division, the problem of the organization of industrial life was found to present many bewildering aspects. But placed in a developing society it becomes doubly bewildering. None of the economic and ethical questions which were noted have disappeared and the new setting adds its own quota of problems.

The disturbing elements in the larger situation are closely associated with those regularly recurring phenomena which are usually called "crises" and "depressions." It was once held that these played havoc with "economic gear and cogs," throwing the "industrial machine" "out of joint," or leaving it "half stalled." Such conditions were looked upon as abnormal; they were thought to create problems of a mechanical character; they called for the services of the industrial mechanism. But, the damage once repaired, the "industrial machine" could run its prosperous course until another catastrophe threw "the monkey-wrench into the machine."

Recent analysis, however, has shown that the matter is not so simple as all this. Two closely related lines of movement converge to produce these disturbances. The first is the development of the industrial system. This involves change in technique, in organization, in markets, and in the demand for goods. The instruments of production are largely specialized; labor is mobile only within fixed limits; and only newly accumulated capital is possessed of this characteristic. Capital values are based upon the earnings anticipated in view of the known and predictable, not the novel, elements in the situation. Particular productive goods are turned out with an expectation that they will be used in the production of particular consumptive goods. The system as a whole has far too much of rigidity successfully and immediately to adapt itself to those radical changes. Yet so delicate is the system that anything which affects a particular industry is certain to have an appreciable effect upon the whole.

The second is "the rhythm of business activity," or the economic cycle. A depression, characterized by conservatism in business and financial activity, gradually leads to an improvement in conditions; as business expands a spirit of optimism arises, and stimulates further expansion; the latter reacts upon the feeling of optimism and causes it to assume a tone of overconfidence, which leads to "flush times" and feverish activity; sooner or later business overshoots the mark, losses occur, and perhaps a crisis, contraction is necessary, and a depression again appears. The cycle is a closed one; it has no logical beginning and no consummation. From lean to fat to lean years it ever runs its varied round.

But the situation is further complicated by the different behavior of different industries and industrial agents during the cycle. If the price scheme were such that values as a whole could be quickly readjusted to meet new conditions, much trouble might be avoided. But such is not the case. Sheer necessity alone must be depended upon to establish the lower price level. But businesses occupy different strategic positions; the baker and the manufacturer of steel rails are likely to be affected in different ways by price-making forces at different stages of the cycle. The man with fixed salary and the employee whose contract runs in terms of a few months or weeks are on a

different footing. The result is that all values do not go up or go down together. The output of various industries, similarly, do not increase or decrease together. Yet all of these industries are involved in a delicate system that calls for nice adjustments.

It is these movements which are responsible for the facts that no two cycles—or crises—are alike; that the cycle varies greatly in length, in sweep, and in intensity, and that a myriad of dissimilar theories have been put forward to account for them, few of which contain no germ of truth.

Its spectacular character has singled out the crises for particular attention almost to the exclusion of the more important "flush times" and depressions. It is not surprising that antecedent business and industrial conditions are often overlooked, and crises are explained in terms of monetary standards and banking systems. Undoubtedly our banking laws in the past have made our crises unusually severe. The elasticity of credit and note-issue secured by the recent currency act should do much to relieve financial stringency when a crisis arises. It should also do something to prevent its occurrence. But those who expect it to cause the industrial process to pursue a more even course are likely to be disappointed.

The violence of the ebb and flow of business activity increases tremendously the difficulty of properly organizing society through price. It also reveals grave breaks in the organization. Capital is insecure and funded wealth may disappear overnight. The cycle is associated with a rhythm of overemployment, non-employment, and underemployment. The capitalists and laborers whose products satisfy marginal wants are put in a very precarious economic position. The crisis destroys wealth, specialized talent, and organization, all of which must be replaced.

The economic cycle involves the whole industrial system. No simple device will arrest the violence of its rhythm. It can be reached only by a complex of many complementary measures. If we are to control the cycle—we must learn to control the introduction of new technique; the demand for goods must be steadied; we must develop an art of predicting business conditions; a means must be found for co-ordinating recently accumulated capital and opportunities for investment; a higher sense of responsibility in making loans must be developed by the bankers; a feeling of responsibility must be engendered in the promoter; and means must be devised for checking the speculative mania.

In time, as our very rapid industrial development slows up, the sweep of the economic cycle may be expected to be less extreme. Then perhaps we shall hear complaints about a prosaic age that has no speculative prizes to dangle before the eyes of investors to tempt them to take chances with unknown opportunities. Then, perhaps, men will point to the "golden age" of the past, when unexploited opportunities were on all sides. They may go so far as to conclude that our violent fluctuations in business were a small price to pay for our rapid industrial development.

A. THE DELICATE MECHANISM OF INDUSTRY

91. The Delicate Organization of Industry¹

BY THORSTEIN VEBLEN

Under the old order, when those in whose hands lay the discretion in economic affairs looked to a livelihood as the end of their endeavors, the welfare of the community was regulated "by the skill, dexterity, and judgment with which its labor was generally applied."

¹Adapted from *The Theory of Business Enterprise*, pp. 179-82. Copyright by Charles Scribner's Sons, 1910.

What would mar this common welfare was the occasional disastrous act of God in the way of unpropitious seasons and the like, or the act of man in the way of war and untoward governmental exactions. Price variations, except as conditioned by these intrusive agencies, had commonly neither a wide nor a profound effect upon the even course of the community's welfare.

Until the machine industry came forward, commerce, with its handmaid, banking, was the only branch of economic activity that was in any sensible degree organized in a close and comprehensive system of business relations. "Business" would then mean commerce and little else. This was the only field in which man habitually took account of his own economic circumstances in terms of price rather than in terms of livelihood. Price disturbances, even when they were of considerable magnitude, seem to have had grave consequences only in commerce, and to have passed without being transmitted much beyond the commercial houses and the fringe of occupations subsidiary to commercial business.

Crises, depressions, hard times, brisk times, periods of speculative desire, "eras of prosperity," are primarily phenomena of business. They are in their origin and primary incidence phenomena of price disturbance, either of decline or advance. It is only secondarily, through the mediation of business traffic, that these matters involve the industrial process or the livelihood of the community. They affect industry because industry is managed on a business footing, in terms of price and for the sake of profits. So long as business enterprise habitually ran its course within commercial traffic proper, apart from the industrial process as such, so long these recurring periods of depression and exaltation began and ended within the domain of commerce. The greatest field for business profit is now afforded, not by commercial traffic in the stricter sense, but by the industries engaged in producing goods and services for the market. The close-knit, far-reaching articulation of the industrial processes in a balanced system, in which the interstitial adjustments are made and kept in terms of price, enable price disturbances to be transmitted throughout the industrial community with such celerity and effect that a wave of depression or exaltation passes over the whole community and touches every class employed in industry within a few weeks. Somewhat in the same measure as the several modern industrial peoples are bound together by the business ties of the world-market do these peoples also share in common any wave of prosperity or depression which may initially fall upon any one member of the business community of nations.

92. The Spirit of Business Enterprise²

BY WESLEY C. MITCHELL

Money economy has attained its fullest development in our own day under the influence of machine production. Its essential feature is that economic activity takes the form of making and spending money incomes. Instead of producing the goods their families require, men "make money," and with their money incomes buy for their own use goods made by unknown hands. The economic comfort or misery of the modern family, accordingly, depends not upon its efficiency in making useful goods and its skill in husbanding supplies, but upon its ability to command an adequate money income and upon its pecuniary thrift. Even in years when crops are short and mills are idle, the family with money need not go cold or hungry. But the family without money leads a wretched life even in years of abundance. Always the elaborate co-operative process by which a nation's myriad workers provide for the meeting of each other's needs is brought into precarious dependence upon the factors which determine the prospects of making money.

For purposes of making money men have gradually developed the modern business enterprise—an organization which seeks to realize pecuniary profits upon an investment of capital by a series of contracts for the purchase and sale of goods in terms of money. Business enterprises of the full-fledged type have come to occupy almost the whole field in finance, wholesale trade, railway and marine transportation. They dominate mining, lumbering and manufacturing. In retail trade they play an important rôle, and in agriculture they have secured a foothold. But, despite this wide extension of business aims and methods, there still remain broad differences of degree between the enterprises typical of the several fields of effort. In size, in complexity of organization, in dependence on the money market, in singleness of business aim, the typical farm and the small retail store are not comparable with the typical corporate enterprises of transportation, mining and finance.

This uneven development of business organization in different fields is highly important. For it is within the circles of full-fledged business enterprise that the alterations of prosperity and depression appear most clearly. Branches of trade which are not organized elaborately are much less susceptible both to the stimulus of prosperity and to the inhibition of depression. In country districts, for example, the pace of activity is subject to seasonal but not to

² Adapted from *Business Cycles*, pp. 21-26. Copyright by the author, 1913. Published by the University of California Press.

cyclical changes such as occur in factory towns. The farmers are never thrown out of work except by bad weather, and they are never overrushed except by seed-time and harvest. In other words, the scope and intensity of prosperity and depression appear to depend upon the extent and the perfection of business organization.

No less important is the thoroughgoing interdependence of business enterprises. As a plant concerned with the handling of commodities, the typical enterprise is one cog in a great machine. Our industries are carried on by sets of nominally independent plants which pass on goods to each other. For example, one series embraces wheat-growers, grain-carrying railways, elevators, flour mills, wholesale dealers in provisions, bakeries, and retail distributing agencies. Each set of members in such a series is dependent upon the preceding set for its chief supplies and upon the succeeding set for its chief vent. Further, no industrial series is self-sufficing. Each set of enterprises in our example, from the farms to the retail agencies, is industrially dependent on other industrial series which equip it with buildings, machines, fuel, office supplies, etc. A peculiar mutual dependence exists between the whole mass of industries and the railways. Coal-mining and the steel trade also touch practically every industrial establishment. Since the transfers of goods are maintained by contracts of purchase and sale, each enterprise is affected by the fortunes of its customers, its competitors, and the purveyors of its supplies. Financial interdependence is also in part but another aspect of the industrial and commercial bonds. Complicated relationships of debtor and creditor arise from the purchase and sale of goods on credit, and make the disaster of one enterprise a menace to many.

A business enterprise may participate in the work of providing the nation with useful goods or it may not. For there are divers ways of making money which are positively detrimental to future welfare. But it is more important that even the enterprises which are making useful goods do so only so far as the operation is expected to serve the primary business end of making profits. Any other attitude is impracticable under the system of money economy. For the man who allowed his humanitarian interests to control his business policy would soon be forced out of business. From the business standpoint the useful goods produced are merely by-products of the process of earning dividends. A clear appreciation of this fact is necessary to an understanding of the relations between industry, commerce, and business. For the well-being of the community, efficient industry and commerce are vastly more important

than successful money-making. A panic which did not interrupt the making and distributing of wares desired by the community would be no great disaster. But the whip-hand belongs to business. In practice, industry and commerce are thoroughly subordinated to it. The ebb and flow of contemporary economic activity is primarily concerned with the phenomena of business traffic—that is, of money-making.

Business prosperity depends upon the factors which control present and prospective profits, together with present and prospective ability to meet financial obligations. Profits are made by connected series of purchases and sales. Accordingly the margin between the prices at which goods can be bought and sold are the fundamental condition of business prosperity. Just as the ever-recurring changes within the system of prices affect business prosperity and through it national welfare, so do changes in national welfare and business prosperity react upon prices. A period of business expansion causes an interminable series of readjustments in the prices of various goods. These readjustments in turn alter the pecuniary prospects of the business enterprises which buy or sell the commodities affected, and thereby start new changes in business prosperity. With the latter changes the process begins anew. Prices once more undergo an uneven readjustment, prospects of profit become brighter or darker, business prosperity waxes or wanes, prices feel the reflex influence of the new business situation—and so on without end.

93. The Interdependence of Prices^{*}

BY WESLEY C. MITCHELL

The prices ruling at any given time for an infinite variety of commodities, services, and rights which are being bought and sold constitute a system.

The prices which retail merchants charge for consumers' commodities afford the best starting-point for a survey of this system. These prices are loosely connected with each other; for an advance in the price of any commodity usually creates an increased demand for other commodities which can be used as substitutes, and thus favors an advance in the price of the substitutes. They are, however, more closely related to the prices for the same goods which shopkeepers pay to wholesale merchants, and the latter to manufacturers. There is, of course, wide diversity between the number

^{*} Adapted from *Business Cycles*, pp. 27-32. Copyright by the author, 1913. Published by the University of California Press.

of members and in the margins between the successive prices in the series. These margins are usually wider in retail than in wholesale trade; wider on perishable goods than on durable staples; wider when the manufacturer sells directly to the consumer than when merchants intervene; wider when a monopolist can fix prices in his own favor, etc. But these diversions are themselves prices in the series for each kind of commodities form a tolerable business basis for making profits out of the process of supplying the community with goods.

The business men engaged in squeezing money profits out of these price-margins are seldom able to keep the whole difference between buying and selling prices. From retailers to manufacturers they require various commodities, services, and rights for the efficient control of their operations. For such producers' goods they have to pay out prices which eat into the profit-margins of the goods in which they deal. The most important classes of producers' goods are raw materials, buildings and machinery, labor, loans, leases, transportation, insurance, and advertising. It is difficult in many of these cases to connect directly the prices which figure as costs with the margins upon which particular commodities change hands. For the cost prices are usually paid for the pecuniary advantage of the enterprise as a whole, and the accruing benefits extend to many transactions and cover a long time. The like is true of manufacturers.

With the exception of labor, producers' goods are provided, like consumers' goods, by business enterprises operating on the basis of margins between buying and selling prices. Hence the price of a given goods is related not only to the prices of the consumers' goods in the production of which it is used, but also to the prices of the various other producers' goods employed in its own manufacture. Thus the prices of producers' goods form the beginnings of new series of relationships which run backward with countless ramifications and never reach definite stopping-points. Even the prices of raw materials in the hands of the ultimate producers are related intimately to the prices of the labor, current supplies, machinery, buildings, land, loans, etc., which the farmers, miners, etc., employ.

The price of labor may seem to bring the series to a definite stop at least at one point. For in most cases the laborer does not have a business attitude toward the production of his own energy. But the price which the laborer can command is connected with the prices of the consumers' goods which established habit has made

into a standard of living. At this point, therefore, analysis of the interrelations between prices brings us, not to a full stop, but back to our starting-point, the prices of consumers' goods.

We must also take account of the prices of business enterprises themselves. Occasionally established business enterprises are sold outright. But the most important transactions of this class are stock-exchange dealings. That the prices of whole business enterprises or of shares in them are intimately related to the prices which have been discussed is clear; for these prices depend primarily upon present and prospective profits, and the latter upon price-margins and the volume of business transacted.

There remains for consideration the prices paid for heterogeneous personal services. These include domestic service, medical attendance, instruction, many forms of amusement, etc. The furnishing of such services contrasts with business traffic in consumers' goods, loans, transportation, etc. For systematic organization has not been developed to so high a point, business motives do not have such unrestricted scope, and the wares are not standardized in equal measure. Moreover, the prices people are willing to pay are based rather on personal needs and income than on calculated chances of profit. The prices of these services therefore form the most loosely organized and irregular division of the system of prices.

This classification of prices assists in seeing the relations which bind all prices together and make them a system. Many price relations are already sufficiently clear, but several lines of relationship should be indicated more definitely.

1. On the side of demand almost every good has its possible substitutes. Through the continual shifting of demand changes in the price of one commodity are often communicated to the prices of its substitutes, from the latter to the prices of their substitutes, and so on. An initial change, however, usually becomes smaller as it spreads out in widening circles.

2. Similarly, on the side of supply, almost every good has genetic relationships with other goods, made of the same materials, or supplied by the same set of enterprisers. Particularly important are the genetic relationships based upon the use of the same producers' goods in many lines of trade. Floating capital, transportation, labor, machinery, etc., enter into the cost of most commodities. Accordingly a changed price established for one of these common producers' goods in any important use may extend to a great diversity of other uses, and produce further price disturbances.

3. Closely connected with this genetic relationship through common producers' goods is the relationship through business competi-

tion, both actual and potential. In so far as effective competition exists, a state of price-margins which makes any one trade more or less profitable than other trades in the same market cannot long maintain itself.

4. Present prices are affected by prices of the recent past and the anticipated prices of the near future. Indeed, present prices are largely determined by past bargains, with established time contracts. Thus the price system has no definable limits in time. No analysis can get back to the ultimate term in the endless series of bargains which helped to make the prices of the present.

5. Nor has the series of prices any logical beginning or end. At whatever point analysis may start to follow the interlocking links, to that point analysis will come if it proceeds far enough. The system of prices is an endless chain.

Prices then form a highly complex system of many parts connected with each other in diverse ways, a system infinitely flexible in detail, yet stable in the essential balance of its interrelations, a system like a living organism in its ability to recover from the serious disorders into which it periodically falls.

The most significant thing about it is the function it performs in the economic life of nations. It serves as a social mechanism for carrying on the processes of providing goods. For prices are the means which make possible the elaborate exchanges, and the consequent specialization which characterizes the modern world. They are the source from which family income is derived, and the means by which goods are obtained for family consumption; for both income and most of living—the two jaws of the vise in which the modern family is squeezed—are aggregates of prices. Prices also render possible the rational direction of economic activity by accounting, for accounting is based upon the principle of representing all the heterogeneous commodities, services, and rights with which a business enterprise is concerned in terms of money price. Most important of all, the margins between different prices within the system hold out that hope of pecuniary profit which is the motive power that drives our business world.

94. The Sensitive Mechanism of Credit⁴

BY HAROLD G. MOULTON

It has become almost a trite saying that credit is the very life-blood of commerce and that without its wonderful assistance the

⁴ Adapted from an article with the foregoing caption in a volume as yet unpublished, 1915.

enormous business of the modern world would be quite impossible. It is a commonplace, also, that the credit structure is a very uncertain mechanism, one that periodically expands to a breaking-point and involves hundreds of businesses in financial ruin, and indirectly demoralizes the commerce of an entire country. The precise manner in which this credit structure is built up, however, with its intricate and complicated interrelations, is not usually clearly understood. It is the purpose of the following analysis to trace these intricate relations, and show the complicated interdependences in the fabric of commercial credit.

Commerce relates to the movement of goods from the hands of those who perform the first operation in production to their final resting-place with the ultimate consumers. Commercial credit connects itself, therefore, with the various purchases and sales that are made in the slow process of marketing commodities. The nature and place of credit in the marketing process may perhaps best be made clear by assuming first a society that does business on a cash basis only.

To illustrate the process let us begin with some raw materials in the form of iron ore and coal which are to be manufactured into farm machinery for sale to farmers. These raw materials normally pass through the hands of the following classes of business men: (1) the manufacturer of machinery; (2) the wholesale dealer; (3) the retail merchant from whom they are purchased by the farmer. In the absence of credit the producer of raw materials would have to possess enough capital to defray the cost of producing these materials. He would sell them for cash to the manufacturer, who pays for them with ready money. In turn, the manufacturer, after having converted the materials into finished machines, sells them in a new form to the wholesale dealer, who pays for them out of funds accumulated for the purpose. The wholesaler next passes them on to the retailer for cash; and the retailer disposes of them to the farmer for cash. In each case cash accumulated and in hand ready for payment is the significant feature. We have thus far, however, but half completed the commercial circle.

The farmer does not purchase the machinery as an end in itself. With it he produces crops for sale. He sells his annual produce to a local dealer for cash; the local dealer sells these products to the commission merchant for cash; the commission merchant passes them on for cash to a retail store; and the storekeeper sells them for cash to his customers, who happen to be, let us assume, the laborers in the mines of iron and coal who were the original producers of the

raw materials that went to the making of farm machinery. Thus we have the complete round of production.

In the foregoing analysis we have assumed each sale to be for cash; no one waits for his payments, and all keep the slate clear as they go. With such a method there is little danger of a general breakdown. If a purchaser has not the cash with which to pay for goods, he is refused the sale. Hence the seller is never dependent upon the future solvency of his purchaser. Sales may be restricted by a slackening of the industrial process; but there are never maturing obligations to meet, and there is never a chain of failures each due to the previous one. Let us now introduce credit into the system as outlined above.

It is evident that the farmer who buys the farm machinery is the ultimate demander of the raw materials purchased by the manufacturer, and of course of the finished machines handled by the wholesaler and retailer respectively. In final analysis the farmer's cash pays for the labor of the workers in the mines of iron and coal. Or, traveling around the circuit in the opposite direction, it is the laborer's cash that really pays for crops of the farmer that have been produced by the farm machinery. Without credit, however, it is impossible for the precise cash paid by the farmer to the retailer to be used by the latter in paying the wholesaler and so on up to the producer of the raw materials. In introducing credit into this system it will be necessary to assume for the moment a situation that does not represent the actual state of affairs. The corrective will be given in the paragraph following.

Let us assume that the producer of raw materials possess enough to produce \$10,000 worth of raw materials, paying his laborers in advance. Now let us assume he sells these materials to the manufacturer on twelve months' time, that is, he agrees to wait twelve months for his pay. The manufacturer in the course of three months converts these raw materials into finished machinery and sells the machines on nine months' time to the wholesaler. In a month the wholesaler disposes of the machinery, letting the retailer have eight months in which to pay. In another month the retailer sells the machines to a farmer, agreeing to wait seven months. Four months later the farmer sells his crops on three months' time to a local dealer, who sells them in a month to a commission merchant on two months' time; the commission merchant in turn selling on one month's time to a retail store; and the retailer disposes of them within a month to the laborers who work in the mines for cash received by them for producing raw materials. Cash would thus be paid to the retailer

of farm produce just twelve months from the date of the first sale of the raw materials; and if this cash should be passed on promptly through the hands of the commission merchant, local dealer, farmer, retailer, wholesaler and manufacturer to the original producer, it can liquidate all the obligations as per schedule.

In actual practice, however, twelve months would be a long time for the producer to wait for his payment. Similarly the periods of nine, eight and seven months would be too long for the others to wait; for further production would be more or less halted meanwhile. In practice, therefore, credit extensions are for much shorter periods, usually from one to four months, whether it be the producer of raw materials, the manufacturer, or the middlemen. How is this made possible?

The manufacturer, for instance, may give his note to the producer for three months, and pay as soon as he sells to the wholesaler. The question now is, where does the wholesaler get the funds with which to pay; does he not have to wait until the retailer has disposed of the goods? This is where the banks come to the assistance of commerce. The wholesaler sells to the retailer on time, but instead of delaying his payment to the manufacturer, he procures a loan from his bank, giving as security therefor the notes received from the retailer. With this loan the wholesaler may pay the manufacturer at once. The loan from the bank is repaid when the retailer settles with the wholesaler. The bank therefore undertakes the waiting instead of the dealer.

In the foregoing illustration it was the wholesaler who procured the loan from the bank. It may in fact, however, be any one or several in the chain of buyers and sellers. The manufacturer, for instance, instead of asking the wholesaler to pay cash could accept a promissory note, and then sell this note to a bank for cash, that is, have it discounted. Or the retailer might borrow from a bank and pay cash to the wholesaler. Similarly, on the other side of the circle, the commission merchant may pay cash to the local dealer, borrowing from a bank for the purpose; and the retailer of the foodstuffs may sell to his customers on credit, and borrow from a bank while waiting for his returns. It is quite immaterial which party procures the assistance of the banks; though in practice it usually becomes the custom for only certain ones in the chain to do so. In this country it is usually the manufacturers and the commission merchants who pay cash.

The commercial structure which we have thus outlined is seen to be very closely interrelated; and it is because of this interde-

pendence of factors that a "credit breakdown" has such far-reaching consequences. The credit circle cannot be disrupted at any point without more or less seriously disrupting the entire system. Suppose, for instance, that a long drouth or heavy rains ruin the agricultural produce and render it impossible for the future to pay the retailer as promised. This affects the retailer's ability to pay the wholesaler, and in turn the wholesaler's ability to pay the manufacturer, or his bank, and so on around the entire circle. Or suppose a strike in the manufacturing establishment should prevent the manufacturer from filling his selling orders. It becomes impossible for him to pay the producer on time; and the latter in turn becomes unable to meet his obligations as they become due. The halting of the manufacturing process may compel the producer to restrict his output of raw materials, and hence discharge laborers. This affects the sales of the retailer of the farm produce, and hence his ability to pay the commission merchant, and so on around the circle. Numerous other examples of this sort might obviously be given.

Whenever there is a break in the delicate structure at any point, there is always an attempt to stop the gap by calling upon the banks for assistance. Whoever finds himself unable to pay on time rushes to his banker for a loan. Indeed if there is but a well-grounded fear that difficulties are likely to come, dealers often go at once to the banks for loans in anticipation of trouble to come. Without going into an analysis of the responsibility thus placed upon the banking institutions, it should be emphasized that the success with which a community may pass through a period of disrupted credit operations depends upon the ability of the banks to expand their own credit sufficiently to tide the commercial world over the emergency.

B. THE ECONOMIC CYCLE

95. The Sensitiveness of Industrial Society⁵

BY LEON C. MARSHALL

Our pecuniarily organized, interdependent society is naturally enough a sensitive society, sensitive both to demand and to shock.

Almost any organization of society would be sensitive in some degree to demand. In a socialistic society, for example, it is to be expected that desires and demands would change from time to time and that the industrial structure would be altered to meet the situa-

⁵ From *Readings in Industrial Society: A Study in the Structure and Functioning of Modern Economic Organization*, pp. 415-16. Copyright by the University of Chicago, 1918.

tion. How quickly the structure would be altered is another matter. It is not probable that it would be altered as quickly as in our present society. In a society organized on the gain basis bribes (sometimes of tremendous size) are continually awaiting the early comers in any readjustment, and punishments (sometimes of tremendous size) are continually awaiting the laggards. Indeed, desire for gain even causes us to stimulate new demands.

Any interdependent society will be sensitive to shock—this by hypothesis. If the society is interdependent, one section cannot be indifferent to the events occurring in another section. Of course different societies would be sensitive to shock in varying degrees. In general terms an interdependent society organized on a pecuniary basis is probably more sensitive to shock than would be a socialistic society. The gain structure transmits the shock at a speed comparable to the speed involved in the reactions of the nervous system. Even more, in our society the shock may very well grow in the process of transmission. The failure of a small business unit may very well cause the failure of a large one, and this of one still larger, and so on more or less indefinitely. It is probable that the shock could be more readily confined to a relatively small territory in a small socialistic community than is the case today.

In all of this there is, or should be, no implication of judgment being passed. There are many respects in which it is fortunate and many respects in which it is unfortunate that our society is exceedingly sensitive both to demand and to shock. For our present purpose the essential need is to see that our society is sensitive and to realize that if we desire to retain the gains of society, organized in such a way as to bring about this sensitiveness, we must be alert to cope with the disadvantages.

96. The Rhythm of Business Activity^a

BY WESLEY C. MITCHELL

With whatever phase of the business cycle analysis begins, it must take for granted the conditions brought about by the preceding phase, postponing explanation of these assumptions until it has worked around the cycle and come again to its starting-point.

A revival of activity, then, starts with a legacy from depression: a level of prices low in comparison with the prices of prosperity, drastic reductions in the costs of doing business, narrow margins of

^aAdapted from *Business Cycles*, pp. 571-79. Copyright by the author, 1913. Published by the University of California Press.

profit, liberal bank reserves, a constructive policy in capitalizing business enterprises and in granting credits, moderate stocks of goods, and cautious buying.

Such conditions are accompanied by an expansion in the physical volume of trade. Though slow at first, this expansion is cumulative. In time an increase in the amount of business which grows more rapid as it proceeds will turn dullness into activity. Left to itself this transformation is effected by slow degrees; but it is often hastened by some propitious event, such as exceptionally profitable harvests, or heavy purchases of supplies by the government.

A partial revival of industry soon spreads to all parts of the business field. For the active enterprises must buy materials and current supplies from other enterprises, the latter from still others, etc. Meanwhile all enterprises which become busier employ more labor, use more borrowed money, and make higher profits. There results an increase in family incomes and an expansion of consumers' demands, which likewise spreads out in ever-widening circles. Shopkeepers pass on larger orders to wholesale merchants, manufacturers, importers, and producers of raw materials. All these enterprises increase the sums they pay to employees, lenders, and proprietors. In time the expansion of orders reaches back to the enterprises from which the initial impetus was received, and then the whole complicated series of reactions begins afresh at a higher pitch of intensity. All this while the revival of activity is instilling a feeling of optimism among business men.

The cumulative expansion of the physical volume of trade stops the fall in prices and starts a rise. For, when enterprises have in sight as much business as they can handle with existing facilities, they stand out for higher prices on additional orders. This policy prevails because additional orders can be executed only by breaking in new hands, starting new machinery, or buying new equipment. The expectation of its coming hastens the advance. Buyers are anxious to secure large supplies while the quotations continue low, and the first signs of an upward trend bring out a rush of orders.

The rise of prices spreads rapidly; for every advance puts pressure on someone to recoup himself by advancing the prices of what he has to sell. The resulting changes in price are far from even: retail prices lag behind wholesale, and the price of finished products behind the price of their raw materials. Among the last-mentioned the prices of mineral products reflect changed business conditions more regularly than do the prices of forest and farm products. Wages rise more promptly, but in less degree than wholesale prices; interest rates on long loans always move sluggishly in the earlier stages of

revival, while the prices of stocks both precede and exceed commodity prices on the rise.

In a great majority of enterprises larger profits result from these divergent fluctuations coupled with the greater physical volume of sales. For while the prices of raw materials and of bank loans often rise faster than selling prices, the prices of labor lag far behind, and the prices making up supplementary costs are mainly stereotyped by old agreements.

The increase of profits, under the spell of optimism, leads to a marked expansion of investments. The heavy orders for machinery, the large contracts for new construction, etc., which result, swell still further the physical volume of business, and render yet stronger the forces which are driving prices upward.

Indeed, the salient characteristic of this phase of the business cycle is the cumulative working of the various processes which are converting a revival of trade into intense prosperity. Not only does every increase in the volume of trade cause other increases, every convert to optimism make new converts, and every advance in price furnish an incentive for new advances; but the growth of trade also helps to spread optimism and to raise prices, while optimism and rising prices support each other. Finally the changes going forward swell profits and encourage investments, while high profits and heavy investments react by augmenting trade, justifying optimism, and raising prices.

While the processes just sketched work cumulatively for a time to enhance prosperity, they also cause a slow accumulation of stresses within the balanced system of business—stresses which ultimately undermine the conditions upon which prosperity rests.

Among these is the gradual increase in the cost of doing business. The decline in supplementary costs per unit ceases when enterprises have secured all the business they can handle with their standard equipment, and a slow increase in these costs begins when the expiration of old contracts makes necessary renewals at higher rates. Meanwhile prime costs rise at a relatively rapid rate. The price of labor rises both because of an advance in nominal wages and because of higher rates for overtime. More serious is a decline in the efficiency of labor, because of the employment of undesirables, and because crews cannot be driven at top speed when jobs are more numerous than men. The prices of raw material rise faster on the average than the selling prices of products. Finally numerous small wastes creep up when managers are hurried by the press of orders.

A second stress is the accumulating tension of investment and money markets. The supply of funds available at the old rates fails

to keep pace with the swelling demand. It becomes difficult to negotiate new issues of securities except on onerous terms, and men of affairs complain of the "scarcity of capital." Nor does the supply of bank loans, limited by reserves, grow fast enough to keep up with the demand. Active trade keeps such an amount of money in circulation that the cash left in the banks increases rather slowly. On the other hand, the demand for loans grows, not only with the physical volume of trade, but also with the rise of prices, and with the desire of men of affairs to use their own funds for controlling as many businesses as possible.

Tension in the bond and money markets is unfavorable to the continuance of prosperity, not only because high rates of interest reduce the prospective margins of profit, but also because they check the expansion of the volume of trade out of which prosperity develops. Many projected ventures are relinquished because borrowers conclude that interest would absorb too much of their profits.

The group producing industrial equipment suffers especially. In the earlier stages of prosperity this group enjoys exceptional activity. But when the market for bonds becomes stringent and the cost of construction high, business enterprises defer the execution of plans for extending old or erecting new plants. As a result contracts for this kind of work become less numerous as the climax of prosperity approaches. Then the steel mills, foundries, machine factories, lumber mills, construction companies, etc., find their orders for future delivery falling off.

The larger the structure of prosperity, the more severe become these internal stresses. The only effective means of preventing disaster while continuing to build is to raise selling prices time after time high enough to offset the encroachment of costs upon profits, and to keep investors willing to contract for fresh industrial equipment.

But it is impossible to keep selling prices rising for an indefinite time. In default of other checks, the inadequacy of cash reserves would ultimately compel the banks to refuse a further expansion of loans on any terms. But before this stage has been reached, the rise of prices is stopped by the consequences of its own inevitable inequalities. These become more glaring the higher the general level is forced; after a time they threaten serious reductions of profits to certain business enterprises, and the troubles of these victims dissolve that confidence in the security of credits with which the whole towering structure of prosperity has been cemented.

In certain lines in which selling prices are stereotyped by law, by contracts for long terms, by custom, or by business policy, selling prices cannot be raised to prevent a reduction of profits. In other

lines prices are always subject to the incalculable chances of the harvests. In some lines the recent construction of new equipment has increased the capacity for production faster than the demand for the wares has expanded under the repressing influence of high prices. The unwillingness of investors to let fresh contracts threatens loss not only to the contracting firms but to the enterprises from which they buy materials. Finally the success of some enterprises in raising prices fast enough to defend their profits aggravates the difficulties of the men who are in trouble.

As prosperity approaches its height, then, a sharp contrast develops between the business prospects of different enterprises. Many are making more money than at any previous stage in the business cycle. But an important minority faces the prospect of declining profits. The more intense prosperity becomes, the larger grows this threatened group. In time these conditions bred by prosperity will force radical readjustment.

Such a decline of profits threatens consequences worse than the failure to realize expected dividends. For it arouses doubt about the future of outstanding credits. Business credit is based primarily upon the capitalized value of present and prospective profits, and the volume of credits outstanding at the zenith of prosperity is adjusted to the great expectations which prevail when affairs are optimistic. The rise of interest rates has already narrowed the margins of security behind credits by reducing the capitalized value of given profits. When profits begin to waver, creditors begin to fear lest the shrinkage in the market rating of business enterprises which owe them money will leave no adequate security for repayment. Hence they refuse renewals of old loans to enterprises which cannot stave off a decline in profits, and press for settlement of outstanding accounts.

Thus prosperity ultimately brings on conditions which start a liquidation of the huge credits which it has piled up. And in the course of this liquidation prosperity merges into crisis. Once begun the process of liquidation extends rapidly, partly because most enterprises called upon to settle put similar pressure on their own debtors, and partly because news presently leaks out and other creditors take alarm.

While this financial readjustment is under way, the problem of making profits is subordinated to the more vital problem of maintaining solvency. Business managers nurse their financial resources rather than push their sales. In consequence the volume of new orders falls off rapidly. The prospect of profits is dimmed. Expansion gives place to contraction. Discount rates rise higher than usual, securities and commodities fall in price, and working forces are

reduced. But there is no epidemic of bankruptcy, no run upon banks, and no spasmodic interruption of ordinary business processes.

Crises, however, may degenerate into panics. When the process of liquidation reaches a weak link in the chain of interlocking credits and the bankruptcy of some conspicuous enterprise spreads unreasoning alarm, the banks are suddenly forced to meet a double strain—a sharp increase in the demand for loans and in the demand for repayment of deposits. If the banks meet both demands, the alarm quickly subsides. But if many solvent business men are refused accommodation at any price, and depositors are refused payment in full, the alarm turns into a panic. A restriction of payments by banks gives rise to a premium upon currency, to hoarding of cash, and to the use of various unlawful substitutes for money. Interest rates may go to three or four times their usual figures, causing forced suspensions and bankruptcies. There follow appeals to the government for extraordinary aid, frantic efforts to import gold, the issue of clearing-house loan certificates, and an increase in bank-note circulation as rapidly as the existing system permits. Collections fall into arrears, workmen are discharged, stocks fall to extremely low levels, commodity prices are disorganized by sacrifice sales, and the volume of business is violently contracted.

There follows a period during which depression spreads over the whole field of business and grows more severe. Consumers' demand declines in consequence of wholesale discharge of wage-earners. With it falls the business demand for raw materials, current supplies, and equipment. Still more severe is the shrinkage in the investors' demand for construction work of all kinds. The contraction in the physical volume of business which results from these shrinkages in demand is cumulative, since every reduction of employment causes a reduction in consumers' demand, thereby starting again the whole series of reactions at a high pitch of intensity.

With this contraction goes a fall in prices. For when current orders are insufficient to employ the existing equipment, competition for business becomes keener. This decline spreads through the regular commercial channels which connect one enterprise with another, and is cumulative, since every reduction in price facilitates reductions in other prices, and the latter reductions react to cause fresh reductions at the starting-point.

The fall in prices is characterized by certain regularly recurring differences in degree. Wholesale prices fall faster than retail, and the prices of raw materials faster than those of manufactured products. The prices of raw mineral products follow a more regular course than those of forest or farm products. Wages and interest

on long-time loans decline in less degree than commodity prices. The only important group of prices to rise is high-grade bonds.

The contraction in the volume of trade and the fall in prices reduce the margin of present and prospective profits, spread discouragement, and check enterprise. But they also set in motion certain processes of readjustment by which the depression is overcome.

The prime costs of doing business are reduced by the fall in the prices of raw material and of bank loans, by the marked increases in the efficiency of labor which comes when employment is scarce, and by closer economy by managers. Supplementary costs are reduced by reduction of rentals and refunding of loans, by writing down depreciated properties, and by admitting that a recapitalization has been effected on the basis of lower profits.

While costs are being reduced, the demand for goods begins slowly to expand. Accumulated stocks left over from prosperity are exhausted, and current consumption requires current production. Clothing, furniture and machinery are discarded and replaced. New tastes appear among consumers and new methods among producers, giving rise to demand for novel products. Most important of all, the investment demand for industrial equipment revives. Capitalists become less timid as the crisis recedes into the past, the low rates of interest on long-time bonds encourages borrowing, and contracts can be let on most favorable conditions.

Once these forces have set the physical volume of trade to expanding, the increase proves cumulative. Business prospects become gradually brighter. Everything awaits a revival of activity which will begin when some fortunate circumstance gives a fillip to demand, or, in the absence of such an event, when the slow growth of the volume of business has filled order books and paved the way for a new rise in prices. Such is the stage of the business cycle with which the analysis begins, and, having accounted for its own beginning, the analysis ends.

C. THE COURSE OF A CRISIS

97. The Irrepressible Crisis⁷

BY W. H. LOUGH, JR.

We may make a list of twelve factors to be considered in sizing up the present situation. They are arranged approximately in inverse order to their immediate influence.

⁷Adapted from an article in *Moody's Magazine*, III, 586-92. Copyright, April, 1907. This article was outlined in February, 1907, and barely missed getting into the March number of *Moody's*, in which editorial mention of it was made. Its statements as to financial weakness were, at least in part, verified by the extreme declines in security values during the month of March.

1. The state of the public mind.
2. Production and volume of credit in extractive industries.
3. Production and volume of credit in manufacturing industries.
4. Production and volume of credit in transportation industries.
5. Output of mortgages and bonds.
6. Output of credit currency.
7. Output of loans and discounts.
8. Output of book credits.
9. Trend of general prices.
10. Treasury and bank reserves of cash.
11. Output of gold.
12. Tendency of foreign exchange.

If we could get complete and accurate information about each one of these twelve factors we could come to some definite and practically certain conclusion as to the business future. Suppose we try to sum up briefly the data available at present about each of the factors named.

1. It is obvious that neither over-confidence nor speculative mania is or has been especially strong. On the contrary, intelligent opinion is notably conservative. Retrenchment, not headlong expansion, is the order of the day. Land booms have been reported from various parts of the country, but apparently they have not been attended with the excitement that has existed in such cases at other times.

2. The extractive industries, agriculture and mining, have made new records in volume of production in the year just passed without interfering with prices to any marked extent. The yields of corn and winter wheat were greater than ever before. Other crops were, on the whole, extraordinary, and 1906 came as the climax of several previous years of large agricultural output. The prospects for 1907 are favorable.

3. Manufacturing industries, as is well known, have made great strides in the last three years. To take two examples which happen to be at hand, we find new buildings contracted for in 1906 worth \$750,000,000, and we find an output of 25,000,000 tons of pig iron in 1906, against 23,000,000 tons in 1905, the best previous year. The pig iron was used largely for structural steel and railroad equipment. A falling off in the demand for these two products would undoubtedly affect a great amount of outstanding securities, and short-time credit. In the opinion of excellent judges, a decline in the demand is already at hand, and will in all probability become more evident as the year progresses. As to other lines of manufacturing we may say, in general, that production is large and increasing, but apparently not yet excessive.

4. New railroad trackage built in 1906 reached a total of over 6,000 miles; but this new mileage is nothing compared to that contemplated for the next few years. The Northwestern railroads are especially active, and in that region the "era of competitive railroad building," predicted by E. H. Harriman, is at hand. What the effects will be on the large volume of new railroad stocks remains to be seen. Within the last two months railroad managers have begun to move a little more slowly in extending and improving their lines. Nevertheless railroad rebuilding and enlargement is still progressing on a great scale, for transportation facilities are plainly inadequate.

5. In considering long time debts, we should note first the striking unpopularity of bonds with the investing public. The reluctance of investors to put their money into mortgages and bonds is, of course, a natural result of high prices and big semi-speculative profits, which make bond returns look small.

6. In the amount of credit currency issued by the government we find, of course, no important change in the last few years. The volume of bank notes outstanding, however, has steadily increased from \$172,000,000, in 1894, to about \$585,000,000 now. The fact that the increase has been brought about by more liberal laws and by the lowered price of government bonds, rather than by business demands, naturally leads us to suspect its stability.

7. The present status of bank loans and discounts is best indicated by the following totals of this item for all national banks: 1896, \$1,873,000,000; 1900, \$2,710,000,000; 1906, \$4,300,000,000. These are most surprising figures in view of the comparatively slight increase in population and real capital during the same period. They grow more astonishing still when we think of the great increase in other banking business during the last ten years. The rate of increase would be almost beyond belief if the figures were not thoroughly trustworthy.

8. Under the term "book credits" I mean to include all the great body of accommodation extended by merchants to individual customers and by wholesalers to retail firms. Of course it is impossible to compute its amount. All we can say is that, beyond question, it must exceed in volume anything that this country has ever previously known. If a wave of credit restriction should set in, a great many individuals and firms would be compelled to shorten sail in a hurry.

9. The trend of general prices in the last few years is too well known to call for much discussion. Dun's index numbers for a few years past are as follows: 1897, 75.5; 1898, 79.9; 1899, 80.4; 1900, 95.3; 1901, 95.7; 1902, 101.6; 1903, 100.4; 1904, 100.1; 1905, 100.3;

1906, 105.2. These prices are the inevitable result of the output of gold and of credit during this period.

10. The total gold coin and certificates in circulation in the United States was, in 1896, \$497,000,000; in 1900, \$811,000,000; in 1906, \$1,263,000,000. The total national bank reserves of lawful money, in September, 1896, was \$343,000,000; in 1900, \$520,000,000; in 1906, \$626,000,000. The ratio of cash on hand to deposits at corresponding periods of the last few years has been: 1896, 19.1%; 1900, 15.9%; 1901, 14.7%; 1902, 13.2%; 1903, 14.3%; 1904, 15%; 1905, 14%; 1906, 12.7%. Looking over the banking field, we see a general downward tendency in the proportion of cash reserves to the credit piled up on the reserves. Unless the downward tendency be reversed, according to all experience, the result will be disastrous. It is in order, then, to see what the prospect is of relieving the situation by large additions of cash.

11. The Annual gold production of the world has increased from \$202,000,000, in 1896, to over \$400,000,000, in 1906, and the outlook is for a still greater production next year. But, sooner or later, the rising tide of prices is certain to cut off the less profitable production and lead to a restriction of output.

12. We turn, as a last source of temporary relief, to the other commercial nations in the hope that from them the United States may draw additional supplies of gold. The principal foreign banks of the world are estimated to hold about \$4,000,000,000 specie, including both gold and silver. The whole commercial world seems deluged with prosperity. No nation and no bank has too much gold. On the contrary, every one is reaching eagerly for more on which to base an enlarged issue of credit. American banks will seek in vain in foreign markets for sufficient additions to their cash reserves.

The experience of the last hundred years indicates that the forces now at work are driving us straight toward a crisis—and I mean by crisis not a Wall Street flurry, such as we have lately seen, which may come at any time from purely local influences, but a general, temporary breakdown of industry. With credit everywhere expanded to the danger point, we are in a position from which only two means of escape are possible. One is a large and rapid increase in our gold reserves, which is out of the question. The other is a progressive restriction of credit, necessarily gathering momentum as it proceeds, which is another name for crisis. Just when or how the wave of credit withdrawals will start no one can tell. A big failure or a rash bit of legislation, or any one of a hundred incidents, which under normal conditions would do little harm, might set it going.

So long as the decisive incident does not occur—and, of course, it may not come very soon, possibly not for two or three years—prices keep on rising and credit keeps piling up. For that reason the longer it is delayed the harder jolt it is likely to give.

98. The Arrested Crisis of 1907^a

BY EDWIN R. A. SELIGMAN

The crisis of 1907 is on the whole not comparable in magnitude to that of 1857 or that of 1873. The reasons for this may be classified under five heads.

In the first place, the very magnitude of the country's resources has been a favorable factor. The unparalleled prosperity of the last decade has made possible the accumulation of vast reserves, not only by great corporations, but also by average business men. This reserve has acted as a buffer to the shock of reaction and has softened the impact through a speedy restoration of confidence in the excellence of the country's assets and in the real solvency of business.

Secondly, the crops have been large and valuable. It must be remembered that, notwithstanding all recent developments, this country is still primarily agricultural and that upon our great crops depends in large measure the effective demand which sets and keeps in motion the wheels of business activity. By a fortunate coincidence the crisis was attended by a phenomenon which in ordinary times would have spelled prosperity, and which helped to bring back normal conditions.

In the third place, the overcapitalization of values was somewhat less conspicuous than hitherto in transportation. Some former crises have been brought on primarily by the speculative building of railroads. During the past five years the annual increment of construction has been only four or five thousand miles. The consequence has been that with the rapid upbuilding of the country the railways have grown up to their capitalization. For some time there has been scarcely any overcapitalization. A striking proof of the absence of any real discrepancy between normal values and capitalization of earning capacity is afforded by the congestion of traffic a year or two ago.

Fourthly, the crisis was preceded by a period of gradual liquidation. General prices of commodities, with a few notable exceptions, like that of copper, were indeed high until well-nigh the outbreak of the panic. But the price of securities had for some time undergone a marked shrinkage. This was caused chiefly by the rise in

^aAdapted from "The Crisis of 1907 in the Light of History," in *The Currency Problem and the Financial Situation*, pp. xx-xxv. Copyright by the Columbia University Press, 1908.

the rate of interest. In fact the one phenomenon is really the other; for where earnings remain unchanged, the capitalization of the earnings depends upon the rate of interest.

The rise in the interest rate was due in part to the increase in the gold output; for an increase in the supply of standard money raises not only the price level of all commodities, but the price of the use of capital, which we call the general rate of interest. In part the increase was due to the relatively smaller amount of capital available for investment. The fund of free capital has been diminishing for the last few years. Hundreds of millions were destroyed by the Boer and Japanese wars; hundreds of millions more disappeared through the destruction of San Francisco and Valparaiso; and countless millions in addition have been utilized to finance the more or less dubious schemes which have sprung up in all countries during the years of prosperity. Despite the lack of general overcapitalization, the discounting of the future was not ample, and the capital was invested more rapidly than the immediate returns would warrant. The replacement fund, in other words, was neither quite large enough nor quite active enough; and with the gradual exhaustion of the available free capital, interest rates necessarily rose and security values as a consequence fell.

The period of liquidation was thus a fortunate event. By checking the movement of exaltation, and preventing the level of prices from being so extreme, it kept the reaction from being so great. Where the crest of the wave is lower, the shock of the break is less. Had the ascent of prices and values gone on unhindered, the convulsion would have been far more severe.

The fifth and final cause of the lesser magnitude of the crisis is the development of trusts. As against the undoubted perils associated with the newer type of business organization, we must put at least one countervailing advantage. The modern trust is likely to exert an undeniably steadying influence on prices. Precisely because of the immense interests at stake, and the danger of a reaction, the ably managed trust tends toward conservatism. As compared with the action of a horde of small competitors under similar conditions, it is likely during a period of prosperity to refrain from marking up prices to the top notch, and to make a more adequate provision for the contingencies of the market. With this is likely to be associated a greater provision, which succeeds in a more correct adjustment of present investment to future needs. The drift of business in its newer form is thus toward a relative checking of the discrepancy between estimated and actual earnings, or, in other words, toward a retardation in the process of overcapitalization. The influence of

trusts in moderating crises and in minimizing depressions will doubtless become more apparent with each ensuing decade.

99. The Course of the Panic of 1907⁹

BY RALPH SCOTT HARRIS

In July, 1907, it was felt in every circle that business trembled on the edge of an abyss. A continued money stringency forced Secretary Cortelyou in August to make deposits in banks and accept as security state, municipal and railway bonds. Beginning in September there was a tone of ill-concealed fright among the most hopeful. Only the financial papers attempted to coax themselves back into the old confidence. During the second week in October call loans in New York ranged from $2\frac{1}{2}$ to 6 per cent; time loans from 6 to 7 per cent; commercial paper from 7 to $7\frac{1}{2}$ per cent. In these two weeks there were twice as many failures as in the same period of 1906. There were five times as many manufacturing failures in September, 1907, as in September, 1906.

A series of bank failures precipitated the spectacular part of the crisis. The first intimation of upheaval was the failure of the stock exchange firm of which Otto C. Heinze was the head. The suspension was due to a failure to corner the copper market. There was a well-defined suspicion that F. Augustus Heinze, president of the Mercantile National Bank, was interested in his brother's ventures, and that the bank was being "used" in this connection. He and his supposed allies fell into public distrust. Seven banks and a trust company with capital of \$21,000,000 and deposits of \$71,000,000 were dominated by these interests. Believing them able to weather the storm, the clearing-house association agreed to help them out if Heinze and his associates were eliminated. This was done. A few days later, however, the National Bank of Commerce refused to clear any longer for the Knickerbocker Trust Company, whose president was thought to be allied with the suspected interests. The result was a run on the Knickerbocker Trust Company, which, after paying out \$8,000,000 in three hours, closed its doors. Runs followed on the Lincoln Trust Company and on the Trust Company of North America. Following several conspicuous commercial failures, other banks in New York closed for safety's sake.

Meanwhile the money scramble began. Banks were forced to try to call in loans in order that they might be prepared for the

⁹Adapted from *Practical Banking*, pp. 250-57. Copyright by the author. Published by Houghton, Mifflin & Co., 1915.

demand of banks and individual depositors. The Secretary of the Treasury deposited \$35,000,000 in national banks in New York in four days.

Stock exchange prices collapsed. A syndicate, headed by the late J. P. Morgan, stated that it would stand under the market, and placed \$25,000,000 on call at 10 per cent; later \$10,000,000 was made available at 50 per cent, the high price being fixed to discourage speculation. Soon the banks began to restrict cash payments; clearing-house loan certificates were issued. The demand for cash started a premium on currency the next week which continued the rest of the year. It offered an incentive for withdrawal of deposits. Large failures occurred as the result of the money stringency. On November 9 arrived the first large shipment of more than \$100,000,000 in gold, imported to relieve the money stringency. The banks had already increased their circulating notes at this time.

But in the meantime the panic had seized the interior. Banks in most of the cities, over 25,000, suspended cash payments. The clearing-house stood guaranty on certificates. It is estimated that over \$500,000,000 of substitute paper was issued. The country banks, having no clearing-house affiliations, suffered most. Many failures occurred among them.

Shipments of money to the west were made from New York. These varied from \$4,400,000 for the week ending October 19, to \$22,600,000 for the week ending November 16. In the week ending January 4 the tide turned and \$5,500,000 was shipped to New York. The New York banks supplied the country with \$125,000,000 between the beginning of the panic and the first of 1908. Still the reserves of the clearing-house banks were not seriously depleted, the importation of gold and the federal deposits having almost offset the loss of cash.

Domestic exchange was paralyzed, New York drafts selling from sixty cents discount to ten dollars premium in different parts of the country. As for foreign exchange, the ordinary rules applying were suspended. Drafts on London were bought when the export point had been passed, the reason prompting buyers being their ability to sell gold at a premium.

Common stocks fell, as did preferred stocks and bonds, although not to so low a point. By the first of the year securities took a brighter outlook on life. To sustain the stock market, the national banks increased loans and discounts some \$63,000,000 between the last of August and the first of December. This was in addition to the syndicate pool of \$35,000,000 previously mentioned.

Perhaps the panic could have been localized had New York bankers been able to meet all demands without restriction. But restriction inspired country banks with a zeal to provide for any disaster. Hoarding followed. In December most country banks had higher reserves than at the beginning of the panic. The question which each country banker asked himself was, Can I afford to be less cautious than other bankers when I know the psychology of "panics" and "runs"?

Failures drop thick and fast when the panic is past. The financial battlefield is gory with the slain and, what is more, the trampled. Failures after the depression sets in are larger and more important. From 3,645 failures in the last three months of 1907, bankruptcies increased to 4,909 in the first quarter in 1908.

100. The Order of Events in a Crisis¹⁰

BY ARTHUR T. HADLEY

The order of events in a crisis is generally this:

1. A shock to public confidence in a period of liberal, not to say inflated, credit, creates a demand for ready money. No one is sure that his neighbor will remain solvent. Each man is therefore anxious to secure himself against future loss. Every borrower seeks means of paying his obligations and increases the demand for money; almost every capitalist tries to enlarge his cash reserves and thus lessens the available supply.

2. This increase of demand and diminution of supply at first puts up the interest rate on short-time loans. Money is needed to tide over the immediate exigency, and every one is willing to pay large prices in order to obtain it. But this is only a temporary measure. Under the stress of need for securing money, people who have engagements to meet sell their goods at a sacrifice in order to obtain it. An unusually large supply of products and securities is thrown upon the market just at the time when many property owners feel themselves least able to invest, and when some consumers are restricting their purchases instead of expanding them. The temporary increase in the interest rate gives place to a more lasting fall in prices.

3. Such a fall in prices lowers profits. A large number of people have made engagements with their creditors and with their employees based on the supposition that prices will continue at the old level. A fall in price renders it impossible to pay interest out of current

¹⁰Adapted from *Economics*, pp. 297-99. Copyright by G. P. Putnam's Sons, 1896.

earnings. Readjustments and foreclosures follow one another in rapid succession. In cases where the lenders of money have obtained proper security the contracts are maintained at the expense of the principal of the borrowers. If a railroad bond is really secured by stock behind it, the loss falls on the stockholders, and the bondholders, ultimately at any rate, receive all that the interest contract calls for. But if, as frequently happens, the security has been a delusive one, the lenders are compelled to assent to a reduction of the interest which they believe to be safely guaranteed.

4. When the interest contracts have been in large measure readjusted, the chief effect on wages begins to make itself felt. It might be supposed, on general grounds, that a fall in price would affect the laborer sooner than the investor. But in the early stages of a commercial crisis the capitalist is not in a position to dictate terms to his laborers. He must make goods and sell goods at any price, in order to keep his head above water. As long as it lasts, the cut-throat competition which lowers profits prevents the demand for labor from being very rapidly lessened. It is when readjustments of interest have been made that the laborers' condition becomes worse. After foreclosure sales have been completed and capital is reorganized on a new basis, no capitalist is necessarily compelled to work at a loss, and some probably go out of work altogether. Under these circumstances the demand for labor becomes appreciably less than it was, and the price offered falls rapidly.

The first moderate changes are as a rule accepted by the laborers as inevitable, but as reductions become more sweeping they are resisted, particularly because house rents and consumers' prices, owing to the inertia of retail trade, do not fall nearly as fast as producers' prices. The workman sees his wages reduced because his employer cannot sell goods at the old figure, while the price that he pays for his supplies remains nearly the same. He thinks that something is wrong and strikes. This usually indicates the beginning of the end of a commercial crisis. It has become a proverb in the financial world that railroad strikes give no help to those who are trying to depress the price of securities.

On the contrary, in spite of the losses attending such conflicts, it has been found in 1877, 1885, and 1894 that the price of securities in general began to go up at the very time when matters seemed to be at their worst. There are two reasons for this. First, strikes cut down production in any given line to such an extent as to enable competing producers to dispose of their products or services more readily. Second, strikes indicate that wage contracts, as well as interest contracts, have been readjusted to the price conditions which

prevail, and that matters have therefore reached a point where speculators can make arrangements for the future with the assurance that the marginal price charged by labor and capital for their services does not exceed the market price which the consumers are likely to pay for the results of such service.

D. INDUSTRIAL CONDITIONS DURING A DEPRESSION

101. Panics versus Depressions¹¹

BY GEORGE H. HULL

Panic is defined as "a sudden, unreasoning, overpowering fear, especially when affecting a large number simultaneously." A "financial panic" is, therefore, the effect produced upon the finances of a country by sudden, unreasoning, and overpowering fright.

Depression is defined as "a state of dulness or inactivity; a protracted season when business falls below the normal." "Industrial depression," therefore, means literally a state of dulness or inactivity in the industries of the country; a protracted season during which the production of buildings, furniture, goods, machinery, etc., falls below the normal.

A financial panic is precipitated by sudden, excited, and imprudent action. An industrial depression is precipitated by deliberate, thoughtful and prudent inaction. One is the result of mental excitement, which results in a temporary check to a natural flow of the media of exchange. It is a mental disorder. The other is the effect of calm, deliberate consideration, which results in reducing the rate of production of materials of physical wealth. It is a physical disorder.

A financial panic is an acute malady. Its beginning is sudden, intense, vivid, and startling. Its chief element is fright. It paralyzes finances at a single blow. Each subsequent step in its course is an alleviation. Each day, week or month shows a marked recovery. From its nature and intensity it is short-lived.

An industrial depression is a stubborn, chronic malady. Its beginning is gradual and quiet. It commences and goes on increasing in force for many months, unnoticed. Its cause is silently doing its fatal work while actual business is increasing by leaps and bounds. When actual depression appears, its cause has almost ceased to exist. From its nature and its deep-seated growth industrial depression is long-lived.

¹¹Adapted from *Industrial Depressions*, pp. 18-20. Copyright by Frederick A. Stokes Co., 1911.

A financial panic is usually a matter of a few months, weeks, or days. An industrial depression is usually a matter of one or more years.

A financial panic may be compared to a mob, in which a great number of excited minds work upon and incite each other until men act in a body as no one of them would act if left to himself. Industrial depressions, on the other hand, are the cumulative results of the deliberate and thoughtful decisions of individual men.

These two calamities can be classed together only because the results of each have a disastrous effect upon business. A panic has an effect which is short, exciting, and a temporary disaster, not to existing material wealth, but to the documentary representatives of wealth; a loss from which the country may entirely recuperate within a short time. The other is a compulsory laying down of the tools which produce wealth, by a vast army of wealth-creators; a loss that can no more be regained than a lost day or year can be regained.

102. The Extent of the Depression of 1907-8¹²

A few facts and figures will indicate the extent of the present industrial depression. Bank exchanges at all the leading cities of the United States were \$2,073,910,424 for the week ending January 30, 1908, a decrease of 23.3 per cent compared with the corresponding week of 1907, and 37.2 per cent compared with the corresponding week of 1906. The decrease in New York and Philadelphia exceeded 28 per cent, compared with 1906, and was greater than in any other cities.

For the first two weeks of January, 1908, gross earnings of railroads were about 13 per cent less than in 1907. For the last week in December they were 15.52 per cent below those of 1906. For the entire month of December gross earnings were 1.13 per cent, while net earnings were 17.46 per cent less than were those for December, 1906.

Transactions of the New York stock exchange amounted to 16,634,817 shares, compared with 22,712,420 in January, 1907. The decline in the prices of commodities in the last few months has been about 10 per cent.

The sharp falling off in the net earnings of the United States Steel Corporation in the last quarter of 1907 show the remarkable decline in industry. The net earnings fell from \$17,052,211, in October, to \$10,467,253, in November, and to \$5,034,531, in December. This is a decline of over 70 per cent.

¹² Adapted from an editorial in *Moody's Magazine*, V, 151-54. Copyright, January, 1908.

The unparalleled number of idle cars affords a barometer of our industrial condition. Today there are approximately 320,000 freight cars and 8,000 locomotives standing idle, representing an investment of more than \$400,000,000, and there are more than 30,000 unemployed trainmen. And yet three months ago there were not enough railroad cars to move the traffic of the country.

The money market affords one of the best barometers of the great change that has come over the industrial situation. From a deficit of \$54,103,600 on November 23, in the surplus reserves of the New York Associated Banks, there was a surplus of \$40,626,725 on February 1. From rates of 25 per cent or more, last fall for call money, we now have rates of less than 2 per cent. From rates of from 7 to 12 per cent for time money last fall, we now have rates of from 4 to 4½ per cent on stock exchange collateral, and from 5 to 6 per cent on commercial paper. The return of hoarded money and the slackening demand for money in industrial and commercial operations are mainly responsible for this sudden transformation of the money market.

Already gold exports have begun from this country. They may reach a considerable volume before next July. Money rates, however, may be expected to remain about as at present. Money rates are being followed by rising prices for bonds and other secure securities. During January the price of bonds rose about twice as much as the price of common stocks. Under existing conditions investors find bonds very attractive in view of the uncertainty of the situation. Many interior banks have put their idle funds in bonds on account of the comparatively high interest return they can secure by such a course.

E. WAR AND THE CYCLE

103. The Beginning of the War¹⁸

The entrance of the United States into the war has caused advances in prices, greater demand for goods, and greater scarcity of materials in many lines of trade. Manufacturing plants are running as fully as the supply of labor and of materials will permit. The problem of deliveries has been very annoying because of the limitation of output and troublesome transportation conditions.

The labor situation has become very acute. It hampers not only the manufacturers, who are under the necessity of turning out iron and steel, ammunition, clothing, textiles, and other products in greater

¹⁸ Adapted from "General Business Condition, District No. 3—Philadelphia," in *Federal Reserve Bulletin* (May 1, 1917), pp. 385-86.

quantity than ever before, but it is also greatly retarding the basic industries, such as agriculture and mining.

There is a patriotic desire on the part of the people in the agricultural sections to do their full duty toward producing the maximum amount of foodstuffs; but, on account of the high price and the scarcity of fertilizers, the high price of seed, and the scarcity and high wages of labor, it appears that the acreage planted to food crops cannot be materially increased. Owing to enlistments and to the transfer of labor from farming to the more lucrative employment in munitions, the farm labor shortage has become so acute that there is grave doubt that farmers can cultivate and harvest a crop as large as last year.

In particular trades, canners have disposed of most of their old pack and prices have been advancing. Department stores report that trade is extremely good. The wholesale grocery trade is having difficulty because of excess demand for goods. The continued high price for coal is having a marked effect upon the cost of iron and steel production. The immediate prospect of large government borrowings is causing hesitation in the investment of funds. Sales of all kinds of securities have fallen off and prices have declined.

104. Eight Months Later¹⁴

Current reports indicate substantial progress in war organization without serious disruption or diminution of general activity and prosperity. Unsatisfactory transportation conditions continue and indicate that more rapid adjustment is to be made if the strain upon the railroads is to be lessened and serious congestion avoided. Industries essential to war preparations are seriously hampered, especially the coal-mining industry and through it all manufacturing.

The general comment indicates active and prosperous business. Agricultural implements are selling well at prices substantially higher than normal. Activity in machinery manufacture continues unabated, supported largely by government orders. Demand for railway, mill, and mining supplies is lessened slightly. Building-trade materials are purchased only for limited immediate requirements. The absolute necessity of increased housing facilities in factory and shipyard centers has led to special efforts toward construction of this kind.

Sustained activity is the report from the textile and clothing industries. Manufacturers of cotton textiles are hampered by difficulty in obtaining raw cotton promptly, and particularly by the

¹⁴ Adapted from "General Business Conditions, District No. 2—New York," in *Federal Reserve Bulletin* (December 1, 1917), pp. 960-61.

problem of the labor supply. Buying demand is excellent, with a tendency not to question prices, buyers trading for months ahead. Silks are readily selling and with no sign of diminishing demand. Further evidence of the absence of rigid economy is furnished by the heavy volume of sales of jewelry and watches.

Interior decorators and house-furnishing companies are experiencing a recession of business. The paper manufacturers are having a good volume of business, though with narrowing profit, because of increased cost of labor, fuel, and wood. There is considerable unsettlement in the drug and chemical lines, with demand better than supply.

Conditions in the metal trades are very uneven. Practically all the copper produced in this country is now being taken by the government. Production of lead, on the other hand, has outrun consumption. The oil industry reports an upward trend in prices of lubricating and fuel oils, but no recent change in the price of gasoline or burning oils.

Conditions in relation to food stuffs continue little changed, buying being careful and for immediate needs only, with prices steady at levels considered high by the trade. For the past six weeks there has been a considerable shortage of sugars.

105. The Winter of 1917-18¹⁵

It is gradually becoming possible to discern a distinct line of demarkation between industries which are essential and those which are not. This district, like the whole country, is on a war basis. Conservation orders, fixation of maximum prices, and the recent fuel order, bring personally to every man and woman a vivid realization that this war is a serious business, requiring the co-operation of all resources and the co-operation of every citizen. This is reflected in the diminishing volume of business in luxuries.

Heavy snowfall in this district completely paralyzed transportation for practically two days and greatly aggravated the already serious shortage of coal at industrial centers and elsewhere. The coal situation has been a cause of anxiety for months. Stocks were low and many large consumers were able to maintain only small supplies sufficient for a few days. With the complete tie-up of the railroads even these surpluses were wiped out and this district found itself in a coal famine. Radical steps had to be taken and the recent edict of the fuel administrator forbidding the use of coal for a period

¹⁵ Adapted from "General Business Conditions, District No. 7—Chicago," in the *Federal Reserve Bulletin* (February 1, 1918), pp. 120-22.

of days, except by essential enterprises, should furnish a means of replenishing depleted coal bunkers.

Necessary industries of the district have in general been working to capacity, meeting the shortage of fuel, material, and transportation with the means at hand.

There continues to be a scarcity of labor. Wages are the highest ever paid. The demand is so great in some localities that it has been found impossible to house the necessary men. Very little wage difficulty is experienced.

Quiet reigns in the investment market, the chief subject of interest being government financing. Bank deposits are high throughout the district. Rates hold firm and no softening is anticipated.

In many cases automobile manufacturers have turned to government work.

As there has been no distillation of beverage spirits since September 8, 1917, distillers are disposing of accumulated stocks and at high prices. Dry-goods houses report a good volume of sales, the preference running to necessities. Speculative purchases are still a factor of volume. Collections are fair to good.

Conditions in the grain business are extremely unsatisfactory. Because the bad weather has hampered car movement, grain receipts have been reduced to a minimum. The result is that farmers hold enormous amounts of grain which they are unable to market, while different localities throughout the country are suffering.

Wholesale grocers report satisfaction with the volume of sales. Prospects for business in the hardware line are reported good. Jewelry houses succeeded in maintaining sales for December at normal. The leather industry is active where government orders have been placed, but quiet in civilian lines. Prices in the live-stock market have eased somewhat. The railroad situation has eased receipts at the yards temporarily. Lumber for building is not in demand to an appreciable extent. Mail order houses report their usual increase in volume of sales.

Piano orders are fair in number, but show a decided drop from last year. About half of the woolen and worsted factories in the country are employed at government work. This had tended to advance prices materially for civilians. Mills are offering for future sale the highest priced fabrics ever known, and these prices are being met as purchasing power is strong, due to high salaries and wages. The usual inventory sale is not so much in evidence this year, retailers being unwilling to sacrifice goods which they can replace only at higher figures. Clearings in Chicago are less than for the corresponding days of the month a year ago.

106. The End of the War¹⁶

Important changes in the business and financial situation have occurred during the month of December. The transition from a war to a peace basis is now in full swing and numerous modifications in the organization of business are now under way. Reports show that the following significant factors may be enumerated:

1. Far-reaching modifications of government control over industry, transportation, manufacture, and prices.
2. Extensive cancellation of government contracts for manufacture and purchase of war goods.
3. Displacement and readjustment of labor resulting from the suspension of war production and the absorption of labor in industries which have thus far suffered from shortage.
4. Changes in the volume of trade, indicating on the whole a slight decrease in volume.
5. Revision of prices with considerable shrinkage in specified articles and on the whole a distinct though slight downward tendency.
6. Expansion in demand for banking accommodations and for capital.

In general the transition has thus far proceeded with considerable smoothness. Such slackening as has occurred is due to conservatism and is an outcome of a desire on the part of producers to know more of public policies and the probable trend of business.

Thus far the readjustment of labor to new conditions has caused little inconvenience or difficulty. Labor set free by the war has been steadily absorbed by general business. The principal effect thus far has been the relief of a previously existing shortage. There is still an excess of demand at many points. Costs have altered but little, and the high expense of living has made employers feel that it was incumbent upon them to maintain wages.

From the productive standpoint conditions continue to be satisfactory in most staple lines. Agriculture is reported to be in an exceptionally promising condition. In the South the farmer is holding his cotton for better prices and is marketing his output conservatively. Excellent crop prospects are reported from the south and west. In the live-stock region conditions are much improved.

Iron and steel, so frequently taken as an authoritative index of business conditions, are unsettled on account of the cuts that have already been made and the expected new price basis for them. The market for steel is quiet. The output for coal is again moving up-

¹⁶ Adapted from "The Business and Financial Situation in December, 1918," in the *Federal Reserve Bulletin* (January 1, 1919), pp. 10-13.

ward, car service has improved in certain sections, and labor conditions are reported fairly satisfactory.

In manufacturing the outlook is by no means uniform. Freight is moving fairly well. Munition industries have largely reduced their activity. Machine tool manufacture is slowing down on account of the cancellation of government orders. Cotton and wool mills have been running full, but the end of unfilled orders is now approaching and but little new business is being placed. There has been an increase in retail trade, due to the holiday season and to a relaxation of war economies.

Prices on the whole have shown only slight changes. There has, if anything, been an advance in the prices of consumers' goods, while raw materials have shown a disposition to decline. The average level of prices appears to be past the peak, but as yet with only a slight movement downward.

On the whole a general review of industrial and commercial conditions points to a distinct trend toward a normal or peace basis. While there are substantial alterations of conditions in particular lines, a good volume of output in the staple articles of commerce is still maintained.

107. Production and Prices

Much interest attaches to the problem of how far the rapidly expanding volume of business in the last six years has been due to an increase in the volume of physical goods produced and how far it represents merely a rise in prices.

On account of the scantiness of statistics of production this problem cannot be studied in a thoroughly satisfactory manner. The best line of attack is to take production and import figures of staple raw materials and interpret the results on the assumption that the total amount of all goods produced varies roughly as the quantity of these raw materials produced in or imported into the United States.

To this end estimates of production, or imports, or production plus imports, as the case required, have been made for ninety staple commodities. This estimate has been made by years for the six year period 1913-1918. Three series of indexes have been computed. The first indicates the increase in the physical volume of production; the second, the increase in the price of the article; and the third reflects the combined effect of increase in output and rise in prices for the period under review. In all three series commodities are classified as coming from farms, forests, or mines. In these computations 1913 is taken as the basis.

¹⁷ This statement is based upon a comprehensive statistical study made by Wesley C. Mitchell for the War Industries Board, 1919.

The figures below are a comparison between 1913 and 1918. In index numbers the production of twenty-five vegetable farm products increased from 100 to 106; their prices increased from 100 to 191; and their aggregate values from 100 to 225. The production of thirteen "animal farm products" increased from 100 to 126; their prices from 100 to 193; and their aggregate value from 100 to 246. The production of twenty-three "forest products" decreased from 100 to 99; their prices increased from 100 to 174; and their aggregate value increased from 100 to 147. The production of twenty-seven "mine products" increased from 100 to 127; their prices increased from 100 to 192; and their aggregate value from 100 to 263. The production of two "fisheries products" increased from 100 to 118; their prices from 100 to 304; and their aggregate value from 100 to 350.

If these computations are thrown together into a table for all commodities the general result is as follows. The physical volume of output shows an increase from 100 in 1913 to 116 in 1918. The rise in prices runs from 100 to 192. The combined effect of increase in output and rise in prices varies from 100 in 1913 to 225 in 1918.

F. CONTROL OF THE INDUSTRIAL CYCLE

108. Panic Rules for Banks¹⁸

BY WALTER BAGEHOT

In time of panic, advances, if they are to be made at all, should be made so as, if possible, to obtain the object for which they are made. The end is to stay the panic; and the advances should, if possible, stay the panic. For that purpose there are two rules:

First, that these loans should be made only at a very high rate of interest. This will operate as a heavy fine on unreasonable timidity, and will prevent the greater number of applications by persons who do not require it. The rate should be raised early in the panic, so that the fine may be paid early; that no one may borrow out of idle precaution without paying well for it; that the banking reserve may be protected as far as possible.

Secondly, that at this rate these advances should be made on all good banking securities, and as largely as the public asks for them. The reason is plain. The object is to stay alarm, and nothing, therefore should be done to cause alarm. But the way to cause alarm is to refuse someone who has good security to offer. The news of this will spread in an instant through all the money markets at a moment

¹⁸Adapted from *Lombard Street* (10th ed.; 1873), pp. 199-200.

of terror; no one can say exactly who carries it, but in half an hour it will be carried on all sides, and will intensify the terror everywhere. No advances indeed need be made by which the banks will ultimately lose. The amount of bad business in commercial countries is an infinitesimally small fraction of the whole business. That in a panic the banks should refuse bad bills or bad securities will not make the panic worse; the "unsound" people are a feeble minority, and they are afraid even to look frightened for fear the unsoundness will be detected. The great majority, the majority to be protected, are the "sound" people, the people who have good security to offer. If it is known that the banks are advancing on what in ordinary times is reckoned good security, the alarm of the solvent merchants and bankers will be stayed. But if securities really good and usually convertible are refused by the banks, the alarm will not abate, the other loans made will fail in obtaining their end, and the panic will become worse and worse.

109. How a Panic Was Averted in 1914¹⁹

It is possible that there have never been two months in the history of the United States since the Civil War when so many and such far-reaching financial and commercial problems were presented as have been offered during August and September of this year. Beginning with the sudden outbreak of the war, drastic and unprecedented fluctuations in securities, cotton, chemicals, and other commodities were witnessed. They were accompanied by a suspension of practically all communication with outside countries, due to the unwillingness of shipowners to continue the operation of their vessels from fear of capture. The total annihilation of export trade for the time being, as well as the partial destruction of import business, produced serious financial and labor difficulties in the United States. At the basis of the whole situation lies the financial problem that was forced to the front by the declaration of war.

Hardly had the actual outbreak of the war become known when the closing of the European exchanges gave the signal for similar action in the United States. On August 1, the New York stock exchange closed its doors, and this example was shortly followed by the cotton and coffee exchanges, and by the Consolidated Stock Exchange. The immediate reason for the closing of the New York stock exchange was twofold: (1) Europeans, foreseeing a tremendous draft on their resources, hastened to sell investment securities in the only great market untouched by the war. To this end

¹⁹ Adapted from "Washington Notes," *Journal of Political Economy*, XXII (1914), 791-93.

European holders of American stocks and bonds cabled their bankers in New York to dispose of securities at practically any price. This process was in operation during the days before the closing of the exchange and had already caused heavy shipments of gold to Europe. Had it been allowed to continue, it would have, almost certainly, deprived the United States of a very large proportion of its gold stock; (2) stock exchange operators who had obtained bank loans protected by collateral security saw that the reduction of prices on the exchange which would necessarily ensue would effectually "wipe them out," while the banks which were "carrying" these persons understood that, if obliged to "call" the loans thus made, they would still further aggravate the pressure of selling orders and would bring about widespread ruin in the financial world.

The confessed closing of the exchanges, because of the danger of loss of gold and of depreciation of prices, naturally tended to arouse serious alarm in many minds, and withdrawals of cash both from the banks and from the Treasury began to be heavy. Almost simultaneous with this condition was the declaration of a so-called "moratorium" by most of the principal countries of Europe. This prevented Americans who had maturing European claims from collecting the amounts due them until a later date than they had expected. Hence such persons were compelled to draw more heavily upon their home bank accounts and so far as possible finance themselves through fresh loans at the banks. Fearing the heavy draft on their resources that was thus threatened, the New York banks almost immediately had recourse to the "national currency association" which had been organized after the adoption of the Aldrich-Vreeland Act.²⁰ Other banks promptly took like action. Applications were at once made to the government for the issue of emergency currency, and it was resolved also to employ an issue of clearing-house certificates. Both of these methods were sanctioned by the government on August 2, and on the following day the work of issuing the certificates and notes was actively begun. It was found,

²⁰ The Aldrich-Vreeland Act of May 30, 1908, attempted to create an elastic currency for use in emergencies. It provided for the formation of "national currency associations" by ten or more national banks having an aggregate capital of \$5,000,000. Upon application of one of these associations, the Comptroller of the Currency, with the approval of the Secretary of the Treasury, was permitted to issue circulating notes not to exceed 75 per cent of the commercial paper or 90 per cent of the state, county, and municipal bonds which were required to be deposited with the Treasury as security. The total of additional notes for the entire country was not to exceed \$500,000,000. A tax of 5 per cent per annum for the first month was imposed upon the issue of these notes. An additional tax of 1 per cent per annum was imposed for each month until a tax of 10 per cent per annum was reached.—EDITOR.

however, that the Aldrich-Vreeland Act placed some serious obstacles in the way of an easy issue of currency. In consequence a bill for the relief of this state of things was introduced in Congress and was signed by the President on August 4. This amendatory act reduced the tax on Aldrich-Vreeland notes for the first three months of their circulation to 3 per cent and raised the limit of issues to 125 per cent of capital and surplus. While no public announcement was made of the issue of clearing-house certificates, it is known that in both New York and elsewhere an enormous amount of such certificates were issued. The emergency currency taken out under the amended legislation already referred to expanded so rapidly that by the opening of September more than \$250,000,000 of it had been issued. The emergency currency was freely accepted by individuals, and banks in New York as well as elsewhere adopted the policy of paying it out whenever possible while holding gold. Thus the financial stringency was narrowly averted.

110. Emergency Elasticity of Credit²¹

BY HAROLD G. MOULTON

Emergency elasticity of credit and loans will be secured under the currency system established by the Federal Reserve Act through what is known as rediscounting commercial paper.

Suppose the First National Bank of Joliet should, when the country is face to face with a crisis, find itself confronted with a heavy demand for commercial loans. This means that a large number of business concerns wish to borrow on their promissory notes, and receive a deposit account against which they can draw checks to meet current payments. It will be remembered that a bank must keep a certain percentage of cash reserves to deposits. Suppose now the cash of this bank is at a minimum, and that, if it makes further loans on commercial paper, the reserves will fall below the legal requirement. Under the old system the bank would have had to refuse the loans to the detriment of legitimate business enterprise. But under the new law the Joliet bank is enabled to increase its reserves, and thereby enlarge its loaning capacity by rediscounting some of the promissory notes in its possession with the Federal Reserve Bank in Chicago. Let us make this matter of rediscounting clear.

When John Jones needs money he may take a note for \$1,000 that he holds against William Wilson to his bank in Joliet and sell it to the bank for cash. The bank will give him \$1,000 minus interest

²¹ 1915.

for the time the note has yet to run. What the Joliet bank does for John Jones is precisely what the Federal Reserve Bank in Chicago will do for the First National Bank of Joliet. When this bank needs cash it can take this note which it has discounted and have it discounted by the Federal Reserve Bank. The Joliet bank will get \$1,000 less the interest for the short time the note still has to run. This second discount is what is known as a rediscount. The Federal Reserve banks are, therefore, bankers' banks, and they do for the individual member banks precisely what the individual banks do for their customers generally. This ability to convert paper into cash and thereby increase its reserve enables the Joliet bank to extend loans to its customers even under severe financial pressure.

Suppose that a bank in a rural community in the Chicago district finds, in the face of an emergency, that there is a heavy demand for loans in the form of bank notes. How can the increased quantity of notes be obtained? Under the new law elasticity of note issue is gained by permitting the issue of notes secured by commercial paper or bank assets. The country bank desiring to issue more notes sends some of the promissory notes of customers to the Federal Reserve Bank in Chicago for rediscount. The latter may upon this paper as security have printed new bank notes and send them to the country bank. This gives an elastic bank-note currency because the demand for more money itself brings into existence the commercial paper that is to be the security for the new notes. A farmer, for example, wants money with which to pay his laborers. So he gives his banker a promissory note, which is secured by the crops soon to be marketed. His banker rediscounts the promissory note and turns the necessary bank notes over to the farmer. But when the need is passed this currency is contracted. The farmer sells his crops and pays his promissory note at the bank. The bank now pays these notes over to the Federal Reserve Bank in Chicago to meet the obligation which had resulted from the rediscount. Bank notes equal in quantity to the amount issued have now come back to the place of issue. The payment of the obligation which brought them forth has automatically retired them.

By these means panics can be substantially checked if not prevented altogether. In the face of a heavy pressure of loans at a time of crisis, any bank can avail itself of the process of rediscounting. This enlarges the loaning power of the banks, makes it possible for legitimate business concerns to secure bank accommodations when needed, and thereby prevents failures. A business which is unsound or mismanaged is not entitled to and cannot obtain loans from a bank. It deserves to fail, and its early failure will be dis-

tinctly beneficial. But the business concern which is fundamentally sound and well managed ought to be able to secure banking accommodations. The new currency law permits this; and at the same time the ability of the banks to provide more currency and to expand loans enables banks to meet all obligations, forestall runs, and escape failures.

111. Bettering Business Barometers²²

BY WESLEY C. MITCHELL

The American man of affairs who seeks to keep informed about the trend of business conditions relies upon the financial columns of his daily paper, one or two of the financial weeklies, and a special trade journal. The data which he can compile from these sources covers a considerable range.

Commodity prices at wholesale are represented by actual quotations and by index numbers like Bradstreet's. The prices of loans on call and on time for thirty days or six months are reported for New York, together with the market and bank rates in London, Paris, and Berlin. The prices of securities are published in detail, and to show the general trend of the market there are convenient records, such as the *Wall Street Journal's* average of twenty railway and twelve industrial stocks.

Fluctuations in the volume of business must be estimated from various sources: bank clearings, railways' gross earnings, number of idle cars, imports and exports, coal, copper, pig-iron and steel output, shipments of grain, live stock, etc. Government crop reports help to forecast the probable state of trade in various agricultural sections. Quite helpful are the reviews of business conditions in different papers.

Information about the currency is supplied by the official estimates of the monetary stock, by reports of gold imports and exports, by the recorded movements of money into and out of the New York banks, and by the figures concerning the production and industrial consumption of gold, and the distribution of money between the banks and the public. Regarding the banks there are telegraphic statements from the central institutions of Europe, as well as a variety of domestic reports from clearing-house and national and state banks.

Some idea of the volume of investment and speculation going on may be obtained from the transactions of the New York stock exchange, the number of building permits granted, the mileage of railway under construction, etc.

²² Adapted from *Business Cycles*, pp. 591-95. Copyright by the author, 1913. Published by the University of California Press.

Last and most important, the prospects of profits are best shown for the railways, whose gross and net earnings are regularly published. The earnings of the United States Steel Corporation probably stand second in general esteem. Then comes a mass of information supplied by the reports of large corporations engaged in mining, manufacturing, banking, etc. The other side is shown by the statistics of bankruptcy compiled weekly by two great mercantile agencies.

Though far from complete, this list of materials is far too long for the average business man. To compile and analyze the available data requires more time, effort, statistical skill, and analytical ability than most men have for the task. Hence the typical individual skips the bewildering evidence and reads only the summary conclusions drawn by the financial editor. That the studying of business barometers and the forecasting of business weather has become a profitable business affords convincing proof of the need and difficulty of using effectively the available materials. It is from such specialists that we may expect the improving and disseminating of the information required as a basis for perfecting social control over the workings of the money economy.

Professional forecasters do not find the data at hand too elaborate. What they most need to improve their forecasts is more extensive and more reliable materials to work upon. But it is also quite possible to better the use they make of the data already available.

Among the most needed additions to the list of business barometers are the following:

A general index number of the physical volume of trade could be made from data showing the production of certain staples, the shipment or receipts of others, the records of foreign commerce, etc. Much material for this purpose is already incidentally provided in official documents. Separate averages should be struck for the great departments of industry, since the difference between the relative activity in different lines would often be not less significant than the computed changes in the total.

The proposed plan for obtaining reports concerning the volume of contracts let for construction work and the percentage of work performed on old contracts merits careful consideration. Few sets of figures would give more insight into business conditions when prosperity was verging toward a crisis or when depression was endangering prosperity.

An index number of the relative prices of bonds and corresponding figures showing changes in interest rates upon long-time

loans would not be difficult to prepare. Even if standing alone these two series would possess great value as reflecting the attitude of investors; but they would be still more useful if accompanied by data concerning the amounts of bonds and short-term notes put upon the market by business enterprises and by governments.

Certain states have made a beginning in providing statistics of unemployment. But we have no comprehensive data of this kind. Their value, not only as an index of welfare among wage-earners, but also as reflecting changes of activity within important industries and changes in the demand for consumers' goods, is such as to make the present lack a matter of general concern.

Most to be desired are statistics which would show the relative fluctuations of costs and prices. Unhappily the difficulties in the way of obtaining such figures are particularly grave. But certainly every extension of public authority over corporate activity should be utilized to secure such uniform methods of accounting as have been imposed on the interested railways, and the reports obtained by the government should be made available in some significant form for the information of the business public.

The old barometers of business could also be considerably improved. The index numbers of commodity prices at wholesale would be more useful if separate series were computed for raw materials and for the articles manufactured from them, and if the raw materials were subdivided into farm, animal, forest, and mineral products. The differences between the fluctuations of these several groups would be of assistance in determining the causes, and therefore the significance of changes in the grand total. Further, an index number of identical commodities in the United States, England, France, and Germany would facilitate the effort to follow the concomitant courses of business cycles in different countries and to anticipate the reaction of foreign upon domestic conditions.

Stock prices should be computed upon the index number plan instead of in the current form of averaging actual prices of shares. To facilitate comparisons the basis chosen should agree with that chosen for commodity prices. The distinctively investment stocks should be separated from the speculative favorites, and separate averages should be struck for railways, public utilities, and industrials. By proper selection fluctuations in the prices of industrial stocks might be made to reflect the fortunes of enterprises especially concerned with providing industrial equipment.

Reports of clearings would be more useful if accompanied by provided for the centers in which financial operations, industrial index numbers showing the relative magnitude of the changes in

the actual amounts. Separate averages for these figures should be activity, and agricultural conditions are the dominant factors. Finally, one of the darkest points of current business conditions in America could be cleared up if the rates of discount upon first-class commercial paper in these various centers could be regularly ascertained.

To extend the list of suggestions for bettering figures of the sorts already published would be easy; but enough has been said to make clear the character of the desirable changes. In general, the need is for more careful discrimination between dissimilar data now often lumped together in a single total, the collecting from new centers of data already published for New York, more uniform methods of compilation to guarantee the comparability of what purports to be similar figures, and the computing of relative fluctuations upon a common basis. In many, if not all these cases, a double set of relative figures is desirable—one set referring to actual average amounts in some fixed decade, the other set making comparisons with the corresponding period of the previous year.

112. The Severity of the Trade Cycle in America²⁸

BY W. A. PATON

The peculiar characteristics of modern industrialism which make it susceptible to serious disturbance are too well known to require detailed description. They include the detached and impersonal relations between producer and consumer, and producer and investor; the interdependent nature of co-operative production; the extreme length of the productive process; the unstable character of demand in dynamic society, and frequent and radical changes in technique. These characteristics are universal throughout the Western World; yet American industry has been particularly subject to industrial disturbance.

The inadequacy of our banking system and credit facilities has often been urged as the explanation. Since we use credit to a far greater extent than European countries, we have particular need for stability in banking and credit. It is hoped that the new Federal Reserve System, by giving in a higher degree than before these characteristics, will do much to modify the severity of the ebb and flow of the trade cycle. But it needs to be emphasized that banking reform can never be more than a palliative. Lax banking and unsound currency systems do something to breed speculative fever. But the fundamental conditions leading to the severity of these disturbances lie deeper.

²⁸ 1915.

First among these is the supreme optimism which has always characterized American industrial development. Here was a vast new continent, with an abundance of land, minerals, natural power, and other resources untouched. People from all countries were drawn into the task of developing these resources. To them America was the long-sought-for "promised land." There were no rigid class walls; there existed every opportunity for "self-development." A loose social system and the reaction of the physical environment made it inevitable that the bourgeoisie attitude should prevail. The immigrant who, as a peasant in Europe, has no thought of changing his status; the native frontiersman, Yankee son of the old New Englander; the prospector looking for diggings—in each you had the would-be capitalist. There was also the man with capital looking for sudden wealth in the shape of land concession, franchise rights, or public contracts. The situation, the large class of speculative investors, great and small, and the political organization, making a fetish of the principle of let-alone, could not but induce a highly speculative, over-optimistic attitude toward industry.

A partial justification of American optimism made it the more speculative. The scarcity of labor incident to the opening of a new country, the demand for improved transportation facilities to permit the utilization of new lands and new resources, and the rapid and comprehensive extension of the machine technique into line after line of production, did much to convince the American that anything is possible.

The changes in industrial technique have been more rapid and more extensive than in any other country. The greater and increasing dependence upon machinery has led to increasing complexity in the productive process, as well as to its greater length. The disturbance in the labor market, such as temporary unemployment, which has been chronically incident to its introduction, is but a single example of the strain and shock to which the system as a whole has been subjected.

But minor causes have also been at work. The influx of laborers from abroad has continually altered the proportions between the productive factors. In this country, filled with people who have broken away from their old surroundings, custom and tradition have had comparatively little force; among us it has been hard for conventions, even those adapted to the new situation, to be built up; and the situation as a whole has been particularly sensitive and variable, especially in demand.

This brief statement suggests the essential aspects of the American industrial structure which has given it its peculiar dynamic

character, and has made it more highly sensitive to irregularity than that of any other country. A word should be added to indicate how these conditions may intensify the severity of the trade cycle. The great speculative optimism of the American people, together with the need of improved technological equipment, leads to a greatly increased demand for capital goods—producer's goods. This means that a great deal of labor power and a large volume of capital are devoted to producing these kinds of goods. In other words, in America there is an unusual heaping up of society's productive resources in the initial stages of the long-time process. This process continues for some time, the boom period. The length of time necessary to permit these investments to yield returns is generally underestimated, as was the case particularly with many of the early American railway projects; and in other cases the ventures are ill advised and could never become profitable. In such a situation many entrepreneurs find themselves embarrassed when their obligations fall due, and a great many failures ensue. Building and development work halts abruptly; prices of raw materials fall very sharply; all prices go down in sympathy, and a more or less severe period of readjustment follows.

In view of the conditions above described, it is difficult to see how this country could have had its very rapid development without these accompanying periods of stress. As the country becomes older, as technique becomes more dependable, as social conventions standardize demand, as efficient government checks the wildest displays of speculative fever, as speculative capital has to look for golden opportunities abroad, and as we have to look more toward internal organization and economy, rather than to external accident, for industrial gain, the ebb and flow of trade depressions will be less and less severe. We are perhaps nearer than we know to the orderly period wherein their rhythm is as circumscribed as in prosaic Europe.

VI

THE PROBLEM OF ECONOMIC ORGANIZATION FOR WAR

Our recent experiences have led to an easy association of the words "war and economics." We refer glibly to "the financing of the war," "the battle of credits" between the nations, the "death struggle for raw materials," "the conservation of man power," and "the complete utilization of national wealth." Beneath military strategy we are prone to discover a larger economic strategy; back of the glory and din of the fighting front we discover the prosaic work of farm, factory, and mill; and we learn that the problems of industry and war are more important and more instructive, if perhaps less interesting, than those of fighting and war. We are all surer that there is an "economics of war" than we are of the specific subject to which these euphonious words refer.

To be exact war has, not one, but many economic aspects. Immediately speaking war comes out of a pursuit called diplomacy; but the latter is concerned with shipping, trade regulations, concessions, the exploitation of primitive lands, the assurance of plentiful raw materials, and dreams of trade expansion with its promise of profits, property, and empire. War is made by nations, who in their political capacities perform economic functions which incidentally result in the extension of the benefits of modern culture, the machine technique, and the price-system into alien lands. In this benevolence it frequently chances that governments get into each other's way and the competition cannot be kept on a peaceful plane. The waging of war rests upon a peculiar and complicated technique which in turn has its roots in scientific knowledge, the state of the industrial arts, the habits of the people, and their response to discipline. The provision of the miscellaneous lot of services and articles which constitute "the sinews of war," requires the solution of many baffling problems in industrial organization. Where the price-system is in vogue these are dependent upon the proper handling of many technical problems of finance. Last of all, war raises its legacy of new problems to take its place for many decades after it is gone and leaves its heritage in changes in economic institutions.

All of these problems have their places in the literature of economics. The question of the economic antecedents of war involves a long chapter in history and cannot adequately be dealt with here. The dependence of war upon science, technique, and social custom carries us back into pre-industrial society, reveals another aspect of the industrial revolution, and illustrates anew the importance of the machine system. This finds expression in an insatiable demand for men, munitions, and materials—insatiable because the struggle is a competitive one and a sufficient surplus means victory.

This problem is, at least for our purposes, the most important of those which are grouped as "the economics of war." In its manifest terms it is the problem of creating a huge surplus of wealth; but complicated by the necessity of being useless unless it appears in the form of specialized articles properly apportioned to each other. In more complex terms it is the problem of reorganizing the human and material means of production to secure the maximum supply of a bill of specified goods. There are, in general, two theories of how this surplus is to be procured. The first depends upon increased production; the second upon the diversion of goods, while still flexible, from old to new, or from non-essential to essential uses.

Neither of these theories is wholly adequate, though each has a measure of validity. Since a nation always has human and material resources which

are going to waste, it has a source of additional wealth. In addition, because of the rhythmic character of business, at the beginning of a war there is likely to be much slack in the business system that can be taken up. Further the new incentives which war brings enable a nation to get out of it resources much more than is usually deemed possible. But there are limits to the surplus available through increased production. Besides, since the struggle is competitive, no matter how successful this procedure, it will not solve the problem. The surplus must be larger than that of the enemy. Hence, if the struggle be a protracted one, diversion is necessary. In a society like ours the simple problem of diversion resolves itself into a thousand administrative details concerning particular businesses, economic arrangements, social habits, and like matters, all of which require for solution a clear conception of the problem of economic organization for war and a generous allowance of specific technical information.

The problem of war finance is less important than it is usually assumed to be. The real "sinews" of war are men and materials, not money and credits. In a simple society the problem would not arise at all. In our society it is an instrument, a mere device for assuring the production of the right goods and for diverting wealth into the new uses. Yet because all activity rests upon the price-system and the financial structure of society is complicated and delicate, the problems of war finance must be handled with knowledge and care. If they are "bungled" not only will "the industrial machine" be half stalled, but a list of problems will be passed on to a people at peace. But care requires a clear recognition of the instrumental character of war finance.

Together the problems of "industrial mobilization" and of "war finance" raise the issue of the dependence which can be put in the price-system to effect adequately and quickly the changes in economic organization necessary to insure war supplies. This has usually been settled by an answer which gives to government greater discretion than in time of peace. It has led to such peculiar economic institutions as administration of food and fuel, licenses for foreign trade, priorities to the use of transport and raw materials, and the authoritative fixing of prices.

Finally we have the list of problems which constitute the economic aftermath of the war. About them few general statements can be made. It is safe only to say that, fundamentally considered, they are old, not new, problems. The war did not create, it analyzed, industrial society. These problems are not the problems of this chapter. They are the problems of this volume and of the larger current economics which is put up in no book. But it is significant that the war placed its emphasis not upon pecuniary, but upon social economics. Its problem was not, What paid? It forced us to attempt to find out how the nation as a whole could get the most out of its resources. It revealed the presence of a surplus over and above the necessities of its members. In war this surplus has a specific use. But the question, one of the most important in economics, remains of the use to which a nation at peace is to put its surplus wealth.

A. THE NATURE OF MODERN WAR

113. War and the State of the Industrial Arts¹

BY ADAM SMITH

Among nations of hunters, the lowest and the rudest state of society, every man is a warrior as well as a hunter. When he goes to war, either to defend his society or to revenge its injuries, he

¹ Adapted from *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Wakefield ed., Book V, chap. 1.

maintains himself by his own labor in the same manner as when he lives at home. His society is at no sort of expense either to prepare him for the field or to maintain him while he is in it.

Among nations of shepherds, a more advanced state of society, every man is, in the same manner, a warrior. When a nomadic nation goes to war, the warriors will not trust their herds and flocks to the feeble defense of the old men, their women, and children; and their old men, their women and children will not be left behind without defense and without substance. The whole nation takes the field in time of war. Whether it marches as an army or moves about as a company of herdsmen, the way of life is nearly the same, though the object proposed by it be very different.

The ordinary life, the ordinary exercise of a Tartar or Arab prepare him sufficiently for war. Running, wrestling, cudgel-playing, throwing the javelin, drawing the bow, etc., are the common pastimes of those who live in the open air and are all of them the images of war. When the Tartar or Arab actually goes to war he is maintained by his own herds and flocks, which he carries with him in the same manner as in peace. Hence his chief is at no sort of expense in preparing him for the field; and when he is in it the chance of plunder is the only pay which he either expects or receives.

In a yet more advanced state of society, among those nations of husbandmen who have little foreign commerce and no other manufactures but those coarse and household ones which almost every private family prepares for its own use, every man, in the same manner, is a warrior or easily becomes such. They who live by agriculture, generally pass the whole day in the open air, exposed to all the inclemencies of the seasons. The hardiness of their ordinary life prepares them for the fatigues of war, to some of which their necessary occupations bear a great analogy. The necessary occupation of a ditcher prepares him to work in the trenches and to fortify a camp as well as to enclose a field. The ordinary pastimes of such men are the same as those of shepherds and are in the same manner the image of war. But as husbandmen have less leisure than shepherds they are not so frequently employed in these pastimes. They are soldiers, but soldiers not quite so much master of their exercise. Such as they are, however, it seldom costs the sovereign any expense to prepare them for the field.

Agriculture, even in its lowest state, supposes a settlement, some sort of fixed habitation which cannot be abandoned without great loss. When a nation of mere husbandmen therefore goes to war, the whole people cannot take the field together. The old men, the women, and the children at least must remain at home. All the men

of military age, however, may take the field, and, in small nations of this kind, have frequently done so. In every nation the men of military age are supposed to amount to about a fourth or a fifth of the whole body of the people. If the campaign should begin after seedtime and end before harvest, both the husbandman and his principal laborers can be spared from the farm without much loss. He is not unwilling, therefore, to serve without pay during a short campaign, and it frequently costs the sovereign or commonwealth as little to maintain him in the field as to prepare him for it.

In a more advanced state of society two different causes contribute to render it altogether impossible that they who take the field should maintain themselves at their own expense. These two causes are the progress of manufactures and the improvement in the art of war.

Though a husbandman should be employed in an expedition, the interruption of his business will not always occasion any considerable diminution of his revenue. Without the intervention of his labor, nature herself does the greater part of the work which remains to be done. But the moment that an artificer, a smith, a carpenter, or a weaver quits his workshop, the sole source of his revenue is completely dried up. Nature does nothing for him; he does all for himself. When he takes the field, therefore, in defense of the public, he must necessarily be maintained by the public. But in a country in which a great part of the inhabitants are artificers and manufacturers, a great part of the people who go to war must be drawn from those classes, and must therefore be maintained by the public as long as they are employed in its service.

When the art of war, too, has gradually grown up to be a very intricate and complicated science, when the event of war ceases to be determined, as in the first ages of society, by a single irregular skirmish of battle, but when the contest generally is put out through several different campaigns, each of which lasts through the greater part of the year, it becomes universally necessary that the public should maintain those who serve the public in war, at least while they are employed in that service. Whatever in time of peace might be the ordinary occupation of those who go to war, so very tedious and expensive a service would otherwise be by far too heavy a burden upon them.

The art of war as it is certainly the noblest of all arts, so in the progress of improvement it necessarily becomes one of the most complicated among them. The state of the mechanical, as well as of some other arts, with which it is necessarily connected, determines the degree of perfection to which it is capable of being carried at any

particular time. But in order to carry it to this degree of perfection it is necessary that it should become the principal occupation of a particular class of citizens, and the division of labor is as necessary for the improvement of this as of every other art. It is the wisdom of the state only which can render the trade of a soldier a particular trade separate and distinct from all others. A private citizen who in time of profound peace and without any particular encouragement from the public should spend the greater part of his time in military exercises might, no doubt, both improve himself very much in them and amuse himself very well; but he certainly would not promote his own interest. It is the wisdom of the state only which can render it for his interest to give up the greater part of his time to this peculiar occupation.

A shepherd has a great deal of leisure; a husbandman, in the rude state of husbandry, has some; an artificer or manufacturer has none at all. The first may, without any loss, employ a great deal of his time in martial exercises; the second may employ some part of it; but the last cannot employ a single hour in them without some loss, and his attention to his own interest naturally leads him to neglect them altogether. Those improvements in husbandry, too, which the progress of arts and manufactures necessarily introduce, leave the husbandman as little leisure as the artificer. Military exercises come to be as much neglected by the inhabitants of the country as by those of the town, and the great body of the people becomes altogether unwarlike. That wealth, at the same time, which always follows the improvements of agriculture and manufactures, and which in reality is no more than the accumulated produce of those improvements, provokes the invasion of all their neighbors. An industrious and upon that account a wealthy nation is of all nations the most likely to be attacked; and unless the state takes some new measures for the public defense the natural habits of the people render them altogether incapable of defending themselves.

In these circumstances there seem to be but two methods by which the state can make any tolerable provision for the public defense.

It may either, first, by means of a very rigorous police, and in spite of the whole bent of the interest, genius, and inclinations of the people, enforce the practice of military exercises and oblige either all the citizens of the military age, or a certain number of them, to join in some measure the trade of a soldier to whatever other trade or profession they may happen to carry on. Or, secondly, by maintaining and employing a certain number of citizens in the constant practice of military exercises it may render the trade of a soldier a particular trade, separate and distinct from all others.

114. War and Economic Organization²

BY CLARENCE E. AYRES

Before one can form an adequate conception of modern warfare one must get rid of two misconceptions which have been very prevalent in America. The first of these is the natural result of the habit of thinking of war only as a series of physical combats between the armed forces of opposing nations. Our predilection to this obviously fragmentary notion is due in part to the influence of the military men who, true to their training, describe war as the manipulation of armies in the field, as a matter of strategy and tactics. It is also due in part to man's innate propensity to look for the picturesque, rather than for the humdrum, workaday machinery behind the panoply of war. The second misconception from which it is necessary to free one's self is the illusion of dollars and cents. We are an excessively business-like people; that is, we are very prone to calculate everything in pecuniary terms. We take to the intricacies of war finance with relish, and the men whose opinions on the war we value highest are bankers and brokers and big-business men in general. Consequently we reckon victories by the flotation of war loans and defeats in the language of inflation.

A year's disillusioning experience in the work of war, however, has served to teach us that war is neither wholly nor even largely a matter of valor in the field and sound financial tone at home. Modern war is almost wholly a matter of industrial technique. It is an affair of office and factory.

Under modern conditions of transportation and large-scale machine production it is possible for a nation to throw its entire productive energy into the fight. The victory depends not only upon placing in the field soldiers who are most valorous, but also upon turning out the most destructive shells in quantities sufficient to deluge any or all parts of the enemy's line at will, the largest quantity of railroad equipment and auto trucks with which to make its artillery and infantry more mobile than those of the enemy, the largest quantity of airplanes with which to observe the enemy's movements, to bomb him behind his lines, and to bring down the planes which serve him for similar purposes. The world-supply of coal and metals is concentrated upon these tasks; therefore one must add the building of merchant ships, transports, and a navy as instruments required for the transportation of raw materials and the finished products of munitions industries as well as men from all parts of the world. The successful accomplishment of this portion of the military program

² Adapted from an unpublished essay, 1918.

demands the diversion to munitions industries, including shipping, of millions of workers and of great quantities of all sorts of raw materials and products in the early stages of manufacture which would otherwise have been consumed in various ways by the civilian population. At the same time the transfer of men to the army and to munitions industries, the diversion of materials from the manufacture of farming implements to munitions, the devastation of fertile lands by the armies, and the exigencies of the shipping situation all serve to make the problems of feeding and clothing the civilian population—which is manning the munitions industries—of paramount importance.

Under modern conditions, therefore, war becomes a problem in the organization of a nation, so that the proportion of men engaged in holding the lines compared with the proportion of men assigned to making guns and shells, airplanes, transportation equipment, merchant and battle ships, and all other strictly military supplies, compared with the proportion of men who are engaged in raising and manufacturing just the amount of food and other necessities that is required to maintain the civilian population as well as the armies at maximum efficiency, shall be calculated to bring to realization the full strength of the nation.

Among the infinite variety of difficulties which this problem of organization presents three main types can be clearly discerned. An enumeration of them will serve to illustrate further the nature of modern war. First there is the difficulty of bringing the whole population into line with the requirements of the military situation—the difficulty of inducing men not only to allow themselves to be enlisted freely into the army and into military industries but, a rather more delicate thing, to permit their property to be used, and used up, if necessary, by the government. This is not a mere matter of investigation and decision. The human animal is very unplastic material—particularly where he has been habituated to the exercise of the prerogative of self-direction—that is, in so far as he has lived under democratic institutions. The remark has frequently been made by farsighted persons in this country as well as in Germany that the American scheme of training men to military service in one summer vacation at Plattsburg overlooks the fact that no soldier is truly effective who has not been habituated to soldierly ways of thinking from childhood up. The same thing is true of the civilian population. No people is sufficiently plastic in the hands of its military organizers which has not been trained for more than a generation to submit readily to an indefinite number of things *verboden* and to look to superior authority for the properly authenticated version of every

man's duty. If a nation is to be successful in war it must look well to the scheme of highly centralized paternalism and feudal subservience to authority. Lacking a people trained to such a fine temper of obedience it must devise some means to induce its people to give over for the time being at least their supposed rights of self-direction and fit themselves as well as may be into that scheme of industrial organization which is the first prerequisite to victory.

Yet the temper of the people and the degree of their susceptibility to the appeal of the war lords is only one of the problems of the military organizer of a nation. A second resides in the fact that an organization itself cannot be brought into existence overnight. The industrial order is so complex that no one knows exactly how complex it is. It is so delicate that it cannot be completely reconstructed on the basis of any a priori plan no matter how skilfully that plan may have been constructed. If it is to be adapted to war, that adaptation must inevitably occupy a considerable time even under conditions of perfect wisdom on the part of the military organizers. Obviously it makes all the difference in the world what the industrial situation is to begin with. If there is no labor organization which commands the loyalty of all the laborers in a certain trade or industry, or if there is no central national labor exchange through which the demands for laborers in all parts of the nation take effect, if all the important war industries are broken up into a large number of small competing concerns which are bound together by no stronger tie than voluntary membership in trade associations, then the nature of the military situation clearly demands the institution of more highly centralized types of organization, such as will fall in more readily with the war-time policy of commanding whole trades. In distinguishing between reasonable and unreasonable restraint of trade a military government must bear in mind the services to be rendered by the combination in time of war; it must weigh the military need for a close-knit, centralized organization of each industry, readily convertible to war uses, against considerations of equity and justice to the consumer. If the nation depends upon imports for military supplies it must encourage the production of such military necessities at home by the offer of bounties and the levy of protective tariffs, thus holding out substantial pecuniary rewards to those business men who assist it in this task of perfecting the organization of the industrial structure for war.

One thing, however, industrial organization itself will not provide. Technical genius comes from other sources—this third difficulty must be met in other ways. Modern war is peculiarly a war of weapons; that is to say, the technique of fighting changes so rapidly under modern conditions that it is not sufficient to be able to produce and wield

a given set of military paraphernalia. The successful nation is the one which can invent new weapons of offense faster than the enemy can devise means of defense and at the same time protect itself not too tardily from the new offensive weapons of the enemy. But this technical capacity is not a matter of sheer inventive genius; it depends upon the amount of technical knowledge which the nation can command in its scientific men and upon the readiness with which that knowledge can be turned to account. The military organizer is presented with the problem of seizing upon the whole available stock of scientific knowledge, of increasing it if there be time, and of diverting it from its function as an instrument for the discovery of further truth to those industrial channels in which it will best serve the military purpose. So far as the needs of modern war are concerned chemistry is the mine from which gas bombs and synthetic nitrates are extracted; history is the raw material out of which national propaganda may be manufactured. Victory casts her laurels upon the nation whose scientific genius invents the most atrocious weapons and the most convincing propaganda.

It must be clear from all this that modern war is no longer exclusively heroic. It is no longer decided entirely, or perhaps even primarily, by individual valor in the clash of arms. It has become a sordid affair of the machine process in which the real hero is as likely to be an engineer or a physicist as a dashing general. Its problems are the problems of the adaptability of the whole people to the discipline of war, of the organization of industrial monopolies and the creation of non-indigenous industries, of the utilization to the fullest extent of the scientific genius of a people. The game is played on the farm and in the factory; the armies merely tally up the score.

115. The Larger Economic Strategy³

The larger strategy of war calls for the solution of complicated problems in industrial organization. Single military campaigns may aim at the taking of supplies, the capture of men, or the occupation of territory. But these immediate objects are part of the larger purpose of a destruction of the armed resistance of the enemy. In terms of this event their success or failure is to be judged. To this end it is necessary that eventually, as campaign follows campaign, an army sufficient in numbers, equipped with an adequate amount of devices, and supplied with the requisite volume of materials be hurled upon the opposition. Antecedent to the strictly military problem this larger

³Adapted from a reading with the foregoing caption in Clark, Hamilton, and Moulton, *Readings in the Economics of War*, pp. 120-25. Copyright by the University of Chicago, 1918.

strategy involves the two problems of securing the requisite men and materials and of distributing and utilizing them in complementary branches of service.

It is evident that the first of these problems depends upon the nature and intensity of the struggle. If the enemy is vastly inferior in man power and in economic resources, or if serious deficiencies in industrial organization make it impossible for it effectively to bring its strength into play, the strategy of supply involves no difficulties. If, for example, the United States were seriously bent upon the conquest of Mexico, an army large enough for the purpose and an adequate supply of materials might be obtained with little difficulty. An army might easily and quickly be recruited by calling for volunteers who could leave their positions or their leisure with little difficulty. The material might be obtained simply by taking up the slack in the industrial system, which is not running at full speed. But if the enemy is strong in men and resources, well organized, and willing to pay the necessary price for military success, the problem is greatly changed. It is suicide to meet an enemy with a million men with an army of only half a million. Gas shells by the tens of thousands are not a match for gas shells by the hundreds of thousands, and rifles are ineffective against machine guns. Furthermore, if the opponents be evenly matched, the struggle becomes a competitive one. A surplus of men and machines gives one side an advantage for attack, and every effort is made to secure it. But this calls for similar exertion by the other. It is the competitor who is willing to plunge most heavily who determines the plane of competition. If the enemy's effective forces are not matched, the victory is lost. They must be overmatched if effective victory is to be won.

In view of this really cut-throat competition, the securing of a surplus of men, machines, and materials becomes alike of the greatest importance and of the greatest difficulty. However simply it may be stated, it involves great precision in estimating the strength of the enemy and in anticipating the course of events, nice calculations and careful judgments about the use in a complementary way of many groups of men and a bewildering variety of industrial equipment. It involves a reconciliation between three sets of interests. First, men and means must be left at their appointed tasks to turn out food, clothing, and other necessities sufficient to insure health and productive efficiency to the population. Secondly, a force must be sent to the front sufficient to prove effective there. And thirdly, men and materials must be kept back of the line adequate to produce the large and varied supplies which the army requires. Too many men and materials in the first or third of these groups is at the expense of

the second. Too few rob the second of a part of their fighting efficiency. In short, the problem is to make the fighting force, which is the cutting edge of the industrial machine, as large and as efficient as is necessary, without weakening the supply service enough to decrease its efficiency. It is evident that the problem requires the utmost delicacy to be manifested in a series of careful judgments. To cite examples of its importance, examples now quite familiar, England suffered during the earlier years of the war from not having men and materials enough at the front, and one of the causes which led to the disorganization of the Russian industrial structure, so evident after the revolution, was the withdrawal of too many men from the economic system for use in the armies.

Under most favorable conditions the solution of the problem is attended with difficulty. In democratic nations like Great Britain, France, and the United States the difficulties are particularly baffling. One problem is in adjusting to the unified demands of war an industrial system which has been contrived with no such end in view. Laborers are specialized to particular tasks, capital has been stereotyped into buildings and equipment which know not war, trade has cut deep and peaceful grooves for itself, and personal habits have become unwarlike and rigid. Although the nation may be willing, it is hard for rational thought to displace the habits and conventions of generations, and for the newer rationalized thought to create a belligerent industrial system in its own likeness. A kindred obstacle lies in the great difficulty of securing the surplus for war use in a society as intricate and complicated as ours. One runs the risk of failing to secure a surplus large enough to put an adequate army at the front and yet of imposing upon certain groups of society burdens heavier than they can bear and still retain their efficiency. In short, there may be much waste which might be converted into necessary war materials. From this it is evident that the problem of securing the surplus is a strategic one which ramifies throughout the industrial system and in its solution calls for the co-operation of all the people of the country.

At this point an illustration may serve to point the nature of this problem of strategy. It is now a commonplace that the army which has the offensive is at an advantage, and that superior numbers of men and materials give the chance for the offensive. Each of the warring nations has been trying to get to the front as many men as possible. To do this all of them have utilized the services of children, the aged, the infirm, and the leisured in industry. Above all, they have attempted to draw women into industrial occupations to release men for the front. In this connection it may be remarked that at

present American women are just beginning to awaken to their part in the strategy of the war surplus. For months they used a large supply of labor in turning out a very small product by knitting for the Red Cross. Of course this little was better than nothing. But it cannot be remarked too often that a nation which uses the machine system exclusively possesses an enormous advantage over one which employs in considerable measure the technique of handicraft.

But the problem of securing an economic surplus large enough to be effective leads to a second strategical problem of an economic nature. The men and materials freed from the industrial tasks of peace times are a fluid mass. The men have to be separated into groups, such as infantry, aeroplane, munitions, etc., and these have to be specialized for tasks which in the great art of war are complementary. And each of these larger groups has to be divided into a myriad of subgroups. Likewise the materials have to be specialized to particular services. This separation has to be carefully made and the correlation carefully effected in view of a larger program of military operations. It is manifest that this separation and correlation is a problem in the organization of men and materials.

Complementary to this and conditioning it is the third problem of the larger strategy, that of hurling it upon the enemy so as to secure the disorganization of armed resistance. This resolves itself into the kindred problems of concentration and dissipation. The object is to concentrate one's effective strength and to cause the enemy to dissipate his, or, more properly, to fall upon an enemy who has been forced to dissipate his forces with a military establishment organized against his weakest point. Such a problem involves conserving the economic resources of men and materials and causing the enemy to waste as many men and as much of his limited materials as possible. To cite an example, the object, or at least one of the objects, of the Gallipoli campaign, was to cause a "diversion" of the resources of the Central Empires from the Eastern and Western fronts. Italy's entrance into the war was premised upon no expectation of being able immediately to break the strength of Austria by crossing the Alps, but to weaken the German lines on the Western front. And, in a way, the dissipation of the resources of the Central Powers and their inability to strike a conclusive blow was the chief result of Russia's participation in the war. How the costs of these ventures compare with the results is a question which does not now concern us. The point is that the object is to cause the enemy to use as many men and materials as possible by the expenditure of a minimum of energy on the part of the aggressor.

Perhaps the clearest example of an attempt to force a great waste of men and resources upon the enemy with little expenditure is the use of the submarine by Germany. The casual reader, who has no interest in the larger problems of strategy, has been taught by the newspapers that the success of the submarine is to be measured by its ability to bring the Allies to their knees by disorganizing their communications and forcing starvation upon the people of England. Those responsible for submarine activity doubtless had some thought of such a happy outcome and would not be seriously disappointed in such an event. But its success or failure is not to be appraised by so obvious a method as its ability or disability to bring England to terms. Its destruction of ships has added to the cost of carriage of cargoes the cost of the ships destroyed as well as the cost of the cargoes which have gone to the bottom. One can see also that if the average ship makes twenty, or even forty or fifty, trips before it goes to the bottom, the cost of carriage, which is in the last analysis nothing else but labor and economic resources, has been multiplied many fold because of submarine dangers. But to this must be added the labor of men and materials embodied in convoys, destroyers, mine-sweepers, aeroplane observation, and the development and manufacture of the thousand and one devices which are used in submarine chasing. In addition, the scarcity of ships interposes an obstacle between the manufacture of munitions in America and their use three thousand miles away. The small neck of the bottle interferes in ways too subtle and too numerous to be mentioned here with the production of supplies in the proportions to each other which those responsible for the military program deems necessary. What these costs in the aggregate are, and what the items would be as an overhead charge for the protection of shipping in any larger scheme of national accountancy, is not definitely known and it would be idle to try to compute it from the meager evidence at hand. But it is apparent to any candid mind which wishes to face the facts, that the men and materials required to maintain the submarine menace are only a fraction of those required to meet it. In short, by the use of a certain amount of limited resources Germany is able to force upon her enemies the expenditure of many times that amount of resources.

Together, these problems—the organization of men and materials between necessary civilian production, war supplies, and the operations of the front, the apportionment of men and materials between various military and semi-military demands, and the problem of concentration of resources against an enemy dissipating his, constitute the larger problem of strategy. Aspects of this problem are necessarily antecedent to the military problem; others are complementary

to it; but all are intimately associated with it, and the problem of purely military strategy can be solved only in terms of, and in the light of, the solution of the larger problem of the economic strategy of war.

B. THE SINEWS OF WAR

116. The Demands of War⁴

The art of war is the master and slave of industry. However dependent it is upon generalship, numbers, and the manly fiber of troops, these are of little avail unless the industrial system is in bondage to its ends. The military establishment is the visible part of a complex structure of materials, men, and values which comprehends the social order. The army which engages the enemy three thousand miles from home is the cutting edge of a great and complex machine, which ramifies unto the utmost confines of the land, includes the activities of all sorts and conditions of men, and depends for its speed and efficiency upon the everyday habits and activities of ordinary people. All the aspects of the economic order, the medley of arrangements and relations which make it up, and the scheme of motives, ideals, and ends which find expression in it, can be assessed in terms of advancing or impairing military efficiency. In this ability to meet the requirements of war nations may be divided into two groups. The first includes those whose governments, industrial systems, and habits and customs, have in time of peace been arranged into an articulate whole capable of direction to military ends. The second comprehends those which, unmindful of military strength or weakness, have allowed these things to develop as a people at peace would have them. Germany belongs to the first group; the United States typifies the second.

In Germany the whole industrial system, with its complement of farms, mines, factories, banks, railways, shops, and what not, long ago was arranged so that very quickly the whole could be turned into a gigantic engine of war. For instance, railways were built to connect the sources of military supply with the frontiers; establishments which wrought iron and steel were built with an eye to their conversion to munition plants; and chemistry, to mention but one science, was not allowed to forget that it might be needed to aid a penetration into alien lands not altogether peaceful. There was much ado that the country should be able to produce as nearly as possible everything essential to success at arms. In order that the surplus of men and materials might overwhelm the enemy, women were taught to assume tasks which in Western countries were exclusively the occupations of

⁴An editorial, 1918, 1919.

males. The concentration of all national energy upon a single objective was achieved by the elaboration in time of peace of a unified and far-reaching scheme of control. The state not only attempted to regulate industry, government, and individual conduct by actual interference, but also, through a careful direction of the school, the church, and the press, it aimed to create a single public opinion that could at will be bent to military ends. Easily and quickly Germany could make the readjustments necessary to war. However difficult it will be for a Germany in defeat to organize its industries for peace, the old Germany, at the end of a successful war, could easily have returned to peace which was only an armed interlude between wars.

War came less easily to liberal nations and affected them more profoundly. The United States has attempted to read no scheme of military use and went into its political system, its industrial organization, or its social life. The yield of farm, factory, and mine was devoted to consumption or securing additional equipment. The surplus produced in excess of necessities was allowed to find its way into individual incomes where it appeared as comforts and vanities. Plants were not established with a view to their quick conversion to military uses, nor were they grouped in accord with their complementary character. The conglomerate net of the railroads of the country had no military design woven into its pattern. There was nowhere, either in the design of the industrial system or in national thought, the idea of a surplus of wealth as large as possible to be devoted to military ends. The national scheme of work and of life was little controlled by the government and responded to the many and conflicting desires of many men. The agencies through which opinion is organized, school, church, press, and playhouse, were left uncontrolled. At the beginning of the war there was little popular appreciation of its nature and cost. There was almost as little expert understanding of the sweeping transformations in industry, its organization, and control, needful to make it obey new impulses. The plans of the most ardent advocates of preparedness would have proved of little avail had they been carried out. Their authors, one and all, failed to understand the industrial basis of modern war and assumed that readiness to meet an enemy consisted in crowding men into uniforms and putting them through an obsolete ritual.

The problem with which the nation in its unpreparedness was confronted at the beginning of the war seemed simple. It was to use our limited resources in national wealth, industrial equipment, and man power in the creation and equipment of an army as large and efficient as possible; to organize it into its component and complementary parts; and to hurl the mass upon the enemy. But only the statement

of the problem is simple. Its magnitude, complexity, and far-reaching character can best be indicated by a citation of some of the innovations by which it was met and the changes these wrought in the quality of national life. Some four million men were withdrawn from ordinary pursuits to enter the army. Their places were taken by the unemployed or they remained unfilled. Women were inducted into work that rightly belonged to men, learned the trade, became efficient, liked the wages, and were reluctant to withdraw. The growth of war industries drew no one knows how many million workmen and led to a geographic and occupational redistribution of labor. Plants were converted to new uses and new ones sprang up to serve the country's needs. The limited supplies of coal, iron, steel, copper, wool, and other priceless materials were carefully conserved. The railroads were welded into a single instrument of national transport, in which the identities of individual lines were for the time lost. An attempt was made to unify all industry in support of the army abroad.

117. The Organization of Man Power⁵

BY MARK SULLIVAN

The purpose of this article is to attempt to bring simplicity and understanding to the industrial situation in the United States at the present time. It is an attempt to set down what has happened, is happening, and is going to happen to the fundamentals of the business and industrial structure of the country. It begins and ends with man power, for that is what it all comes back to. If the discussion be kept in terms of man power, it will be within the comprehension of any understanding, for the whole problem becomes merely one of addition and subtraction—under our present conditions, chiefly subtraction.

"Man power" is frequently used in military discussion as meaning the total number of soldiers a nation can bring together. More broadly, and more properly, it is the entire strength of a nation, military and industrial. In this more correct sense the man power of the United States is 35,000,000—the 35,000,000 men, women, and children who do the country's work, who serve it in the army, who dig its coal, who raise its crops, who run its trains, who build its roads, who make its powder, who turn out its munitions.

This 35,000,000 man power is our all. It is the whole measure, and the true measure, of our wealth. It is the measure of our effectiveness in war and peace. It is the total—to put it in terms of our

⁵Adapted from "Man Power," *Collier's Weekly* (June 22, 1918), pp. 1-2; 35-38. Copyright by P. F. Collier & Son, Inc., 1918.

national card game—of our pile of chips in the fight with Germany. We cannot increase it. To a certain extent we can mobilize it more effectively and manage it more economically. But we shall always come back to this 35,000,000, and no more, as the measure of this nation's capacity to work, to fight, to accomplish, to do.

Now let us see just what has happened to this 35,000,000 since the war began. The first thing to bear in mind is that with the beginning of the European War the greatest source of increase for our man power was cut off. We used to get an increase of a million man power a year through immigration. We now get substantially nothing. Few people recognize the significance, in a business and economic sense, of this cutting off of immigration. The immigrant was almost the only source of what we call "day labor," the men who do the building and repairing of railroads, the mending of streets and roads, mining, and the rough work of steel mills and other factories. We have gone on as if this source of our labor were a perpetual fountain. We have not stopped to consider the business and economic and social changes which must come about when the fountain runs dry, and we are compelled to adapt ourselves to a condition very strange to us. Moreover, an immigrant raised to maturity, with all the expense of his nurture and training paid by his own country, delivered at our gates free of charge as a working unit of man power, was a valuable asset.

After the cessation of the accustomed increase from immigration the most obvious thing that has happened to our man power is that 2,000,000 of it, between the ages of twenty-one and thirty-one, have gone into the army, and are no longer at their accustomed posts in factories, mines, offices, and farms. This 2,000,000 is the best of our man power. It was at the age of greatest vitality. The loss of it to our industries is greater than the mere figures indicate. Two million man power (a year from now it will be 3,000,000, two years from now it will be 5,000,000) out of our total 35,000,000 have ceased completely to be normal producers of goods. Incidentally, as soldiers they have become larger consumers than they were before of food, clothes, and other materials.

Here, then, is the first subtraction: 2,000,000 from 35,000,000 leaves 33,000,000. But this is only the first, and not the largest, of many subtractions.

Subtract another half million for the navy.

Subtract another half million for shipbuilding.

At this point it might be appropriate to ask some of the "business as usual" advocates just how business can be as usual, just how 32,000,000 man power can do the amount of work and business usually done by 35,000,000. As a matter of fact, we do not have

even 32,000,000 man power left available for business as usual. For the deductions just pointed out are not by any means all the deductions that have occurred. They are not even the largest deductions. I have set them down first merely because they are the most obvious. They are the best ones for illustrating the thing that is happening. They involve actual dislocations of man power—men who go away, not only from their accustomed pursuits, but also from their accustomed homes. But it must be remembered that man power can be diverted without being dislocated. A man may continue to live in the same house, and use the same pick, and work in the same mine, and get his wages from the same boss ; but if the ton of ore he digs finds its ultimate destination in rifles instead of piano wires, he is a unit of man power subtracted from its normal uses. And these diversions are enormous.

As to the precise number who have gone and are now going from their normal pursuits into powder making and bullet making and rifle making and gun making and the like, it is not possible to give figures as exact as in the case of the army and navy. But it is possible to arrive at some convincing estimates. Consider, for example, one of the minor war industries, airplane making. Ultimately, if we do what we ought to do, we shall have at least 50,000 aviators in France. It is estimated that one aviator on the fighting front will require forty men back of the line for repairs and in the factories as mechanics and gathering spruce and in other ways producing the materials. Based on that estimate, we shall, during the present and coming year, take another 2,000,000 out of our power for building our air fleet, and keeping an adequate supply of these unusually intricate and unusually breakable machines flowing toward the front in France.

But airplane making is merely one of the minor of the several war industries which are taking millions away from the usual pursuits of our normal 35,000,000 of man power. In one concern, Bethlehem Steel, nearly 100,000 employees, about 90 per cent, are engaged on government orders. This is fairly typical of the steel business as a whole. During May and for three months preceding, 85 per cent of the entire steel trade of the United States was engaged in war work. And until the war ends this proportion is sure to increase rather than diminish.

But it is not necessary to go through all the tedious computations of the number of our man power which has been taken for powder-making, for shell-making, for rifle-making, and the like. The figures change from day to day, and the change is always an increase. Out of all the mass of figures, exact and estimated, the one net fact, the "red-ink" fact, as the accountants express it, is this: as compared

with normal peace-time production there is a labor shortage in the United States of at least 15,000,000 man power. Such a shortage from normal as 15,000,000 is not a shortage at all, but a famine, and it is this famine in man power which underlies all other famines.

Already "the farms are crying for labor. The mines are crying for labor. The shops are crying for labor. The railroads are crying for labor. The manufactories are crying for labor. There is shortage of labor everywhere."

Beat the devil around the bush as we may, we shall always arrive at the same point; namely, a fixed total of 35,000,000 man power, and under present conditions a shortage of from 15,000,000 to 18,000,000.

That is the main, central fact. That is the essential truth.

118. The Insatiable Demand for Munitions*

BY RIGHT HON. EDWIN MONTAGU

When an attack is planned against a securely entrenched enemy, with barbed wire everywhere, with elaborate communication trenches, and powerful long-range supporting artillery, the first necessity is to break down the wire and smash his first line of trenches. This means a heavy expenditure of field artillery, shrapnel, and trench mortar bombs for wire cutting, and heavy howitzer shells for trench destruction. If this task is inadequately performed, if the wire checks the infantry, if machine-gun emplacements remain intact, the attack fails, and fails with horrible results. When the bombardment has disclosed to the enemy an impelling attack, the enemy tries to stop it by curtain fire. During the bombardment the enemy, from his observation posts, is constantly watching for the infantry assault. He concentrates a converging fire from hundreds of long-range guns upon the trench area from which the infantry must debouch. That fire has got to be subdued, or the attack takes place under a perfect tornado of projectiles; hence the necessity for counter-battery work. An immense expenditure of shells from long-range guns, controlled from the air, whence alone the fire can be directed at the enemy's guns, goes on whenever aerial observation is possible. The guns are well entrenched, and this runs away with an enormous amount of heavy and medium ammunition. Next the attack takes place. Its flanks have got to be protected, and while the infantry is engaged in facing the parapet of the captured trenches the other way they have got to be protected from counterattack. A counterattack begins by the enemy's bombers coming down the communication trenches and

*Adapted from a speech delivered before the House of Commons, August 15, 1916.

bombing the captured trenches. They cannot be seen—cannot be spotted from the artillery observation posts. The only means of dealing with them is to direct a barrage fire which sweeps every communication trench, leaving nothing to chance. Later the enemy's more formidable counterattack comes along. It is organized under cover of concentrated artillery fire by means of massed infantry from the support trenches. The success of these attacks has not only got to be prevented, but the enemy must not be allowed to formulate them. So the successful infantry must be protected on its flanks and front by barrage fire of shrapnel and high explosives directed against the enemy's support trenches, where the infantry, unseen, are organizing for the counterattack.

Finally, to be able to press on successfully from one attack to the next, the resisting power of the enemy must be worn down by want of rest, of relief, of food. All day and all night the approaches to his trenches must be kept under fire to prevent relief coming to his men, to prevent the replenishment of ammunition supplies, and to prevent his obtaining food and rest. If you add one more detail, what I believe the French call *tire de démolition*, which is directed by the very heaviest howitzer guns against especially fortified nodes which are dotted about the area of the German lines, and consider all the operations which I have described, wonder ceases that you want so much ammunition. The only marvel that remains is that you can ever produce enough to sustain the attack which goes on week after week, day and night, with varying, but always with sustained intensity.

119. The Scientific Basis of War Technique⁷

BY GEORGE K. BURGESS

The chemists say this is the chemists' war, the engineers claim it as theirs, while a distinguished French physicist calls the struggle "a grandiose physical phenomenon," and the medical and surgical fraternity demonstrate that prevention from epidemics and rendering possible the return to the front of some three-fourths or more of all invalided and wounded has made the continuance of trench warfare possible.

Verdun has been named "the metallurgical battle" and also "the battle of the trucks," referring in the first case to the importance of the iron-ore deposits of the Briey region located a few miles to the northeast, and in the second to the vast numbers of automobile trucks employed by the French on the only highway open at the outbreak of the battle.

⁷Adapted from "Applications of Science to Warfare in France," *Scientific Monthly*, V, 289-97. Copyright, 1918.

The meteorologist is listened to with attention by the Great Headquarters, as was the astrologer of yore, before an extensive offensive is undertaken; and the geologist is consulted for information as to where to halt and dig in, where shelters may be safely built, and as to the probability of underground waters. Even the astronomer's services are considered of great importance, for example, in the preparation of new artillery tables and maps, the improvement and invention of instruments which differ but slightly in principle, however much they may differ in the nature of their use, from those with which he is familiar. Again, the statistician is a most valuable person when an offensive is being planned. Also France, at least, has found the mathematician indispensable, for in the person of M. Painlevé he sits at the head of them all as Minister of War, whose civil, technical staff is largely made up of eminent members of the same profession. Is this then a mathematicians' war?

In truth, chemistry, physics, hygiene, mathematics, engineering, geography and geodesy, metallurgy, geology, bacteriology, meteorology, or pretty much the whole curriculum of physical and natural sciences and their applications are each of them fundamentally essential in modern warfare, some of course more apparently so than others, but almost none could be spared and the war carried on successfully.

Two most important corollaries immediately suggest themselves:

First, the war can not be successfully prosecuted if there is lacking any of the necessary raw materials, including chemical, physical, and metallurgical supplies such as nitrates, optical glass, coal, and steel, to name but a few. The operations of modern warfare are so complex and interrelated that the want of crucial supplies in one domain may seriously hamper all; hence the phenomenon of which there are instances innumerable, of intensive scientific research in the development of substitutes as one or another essential material becomes scarce.

Second, modern warfare can be waged successfully only by the proper organization of these diverse scientific elements in addition to, and co-ordinated with, or incorporated in, the military establishments.

In a completely mobilized country, such as France, it is essential that each man in the community, which is nearly identical with the military establishment, be assigned to the task for which he is best fitted—or there must be scientific organization and management to secure the country's greatest possible efficiency.

What is this organization? How and to what extent are the sciences used in warfare? And how are the scientific men mobilized

or otherwise made use of? A brief statement of some of the impressions gained during a three months' stay in England and France may not be without interest.

The most striking impression brought home is one of unity of purpose, perfect adaptation and co-ordination of the several branches; a harmonious whole, in fact, made up of separate and often highly intricate parts constituting an organization in which all the sciences and their applications blend into one, which is focused by the admirably trained technical and staff officers on the sole object of destroying the enemy. The French traits of individuality, initiative, and self-reliance, are, however, in no sense lessened or dulled by this co-operation.

What are some of the component parts of this unity in scientific warfare? We shall mention but a few in illustration of the whole.

Of all the branches of this science the one that had in recent years been lagging behind the others and to whose development the least attention was being paid, was acoustics; yet it is not an exaggeration to say that the application of the principles of acoustics, or sound, is of the greatest importance at the front.

One of the most highly developed is the location of enemy guns, concerning the details of which a volume could be written; suffice it to say that in the French armies there are several systems in use, all of which will locate to within a few yards an enemy battery at ten or twenty kilometers, indicate the caliber of the guns, differentiate between the sounds of discharge, flight through the air, and bursting, and record each and every separate shot; and the spot from which the shot was fired may, under certain conditions, be located before the shell bursts. There have been developed several ingenious listening devices built on entirely different acoustical principles for use in mine warfare, by means of which enemy mining operations may be exactly located. Again, for the location of sounds in the air, especially useful, for example, in locating airplanes at night, several new types of sound apparatus of extreme sensitiveness are in use. For submarine detection some of the most promising methods for further improvement are based on the use of still other sound-detecting devices. Wonderfully powerful megaphones for use in battle have also been developed. Acoustics as an active branch of physics has most decidedly come into its own.

In photography and the technique of photographic map making there have been great improvements, brought about directly by military necessity, especially in aerial photography, apparatus, and interpretation. One of our most interesting visits at the front was to the photographic headquarters of a French army corps, where we

listened to an admirably delivered, illustrated lecture on the taking and interpretation of aerial photographs. The art of map-making from photographs, as carried out at the front, is practically a new branch requiring great skill, and is evidently of the first importance, as oftentimes the success of an offensive is largely dependent upon the quality of this work.

As would be expected, there have been not a few advances made in applications of electricity, especially wireless apparatus and methods, signalling and listening devices. There may be, for example, during a battle more than 1,500 separate wireless stations sending messages simultaneously; provision is successfully made for preventing interference and sorting out this great mass of signals so as to avoid confusion. Portable wireless outfits are supplied by the tens of thousands—requiring for the construction of these instruments alone a veritable army of skilled mechanics.

The reading public is perhaps more familiar with some of the applications of chemistry to warfare, such as the asphyxiating, tear-producing, and other noxious gases used in waves or clouds and lately more and more in shells; and the importance of nitric acid, toluol, and the like has been impressed on everyone. The stupendous scale on which such substances must be produced to keep up with the demands of the armies is perhaps not sufficiently realized, nor is there any adequate appreciation of the amount of scientific investigation being carried out. In France I understand there are some twenty-five distinct laboratories engaged in nitrogen-fixation research alone.

Turning now to meteorology, what has the weather man to do with war? He too plays a capital rôle. With his sounding balloons he keeps the troops informed as to when a gas attack may be expected and when it would be profitable to start one; the artillery depends on him for data to calculate important corrections, as for wind, humidity, pressure, and temperature and upper-air conditions in sighting their guns; the aviators as to prevailing winds, especially high up, and for general weather conditions; the balloon men keep in close touch with him, and even the transport service depends upon him for advance information as to muddy roads; headquarters relies upon him for knowledge of impending fog or rain and other changes—the weather man has a very heavy responsibility in helping to decide the most propitious moment for an attack on a grand scale, and if his forecast is erroneous, disaster may result.

We have not touched upon the applications of science in the various branches of military engineering, some of which are new in this war, requiring the highest directing, technical talent, and thousands of workmen; the advances in medicine, sanitation, and surgery

have not been treated, nor have we mentioned trench warfare with its manifold engines, appliances, and materials, necessitating the creation of new industries accompanied in all cases by elaborate scientific research. Gas warfare alone is based on what is literally a stupendous industry requiring the employment of chemists and other scientifically trained men on a great scale. Again there are large and very active laboratories maintained for the examination of enemy munitions and appliances of all kinds, and for the development of new and improved types.

Examples enough have been given to impress upon the reader, I hope, the tremendous magnitude, enormous scope, and far-reaching extent of the problem of modern warfare looked at from the point of view of the applications of science and the employment of scientific and technical men.

The wonderful organization was not all built up in a day, neither were mistakes avoided, nor could all the developments that have taken place have been foreseen. In the early days of the war men were sent to the front, whose brains today would be an invaluable asset; national laboratories were almost depopulated; the military authorities were indifferent to advice from civilian specialists. Today one would be embarrassed to decide whether an officer in one of the specialized services was an officer before the war or, let us say, a professor of chemistry. The national laboratories have been multiplied tenfold; and such care is now taken to protect productive brains that it may happen that the inventor of a new device is not allowed to go to the front to try it out.

C. METHODS OF INDUSTRIAL MOBILIZATION

120. Voluntary Army Recruiting^a

BY ANDRÉ CHEVRILLON

Voluntarily recruiting is not merely unjust; it is harmful in its outcome. It is the injustice which causes the obvious and immediate difficulty. For instance, for young bachelors of twenty and twenty-five to remain peacefully smoking their cigarettes in the streets while heads of families are risking death is evidently unjust; but it also involves extra expense to the state, for every unmarried soldier costs only eighteen pence a day and his keep, while in the case of each married volunteer a wife and almost always several children must be provided for. It was calculated in the month of August that three men who had enlisted in London on the same day were leaving alto-

^aAdapted from *England and the War*, pp. 197-99. Copyright by Doubleday, Page & Co., 1917.

gether twenty-six persons to be supported by the state. Not only, then, for a moral reason should compulsory service, if established, be enforced first of all on bachelors. The voluntary system has other defects still more injurious to the successful conduct of the war. Not only is the number of recruits smaller than it might be, but who can foretell what this number will be tomorrow, or six months hence? It is impossible to estimate and prepare the necessary equipment and the adequate lists of instructors and officers; this became clear in the first months of the war. Such was the sudden rush of volunteers, that for lack of enough buildings, uniforms, guns, and instructors many had to be refused. The men were discouraged; the idea spread that no more men were wanted, and the next appeal met with a poor response; it was necessary to resort to new propaganda. Then there was another difficulty leading to another kind of confusion. A man would often enlist for a particular corps or a particular service only. A chief engineer, priceless in the workshop, would insist on going to the firing line; an unskilled mechanic would prefer to serve at home in a factory. Finally, for lack of the numbers of fighting men which conscription would give, the state, as the war extends and the need of soldiers increases, ends by taking all who offer themselves, even boys and weaklings, who quickly sink to the hospital and are finally dismissed. Time was required to reveal all these defects, some of them clearly immoral, of a system which owes all its prestige to its appearance of superior morality and the force of tradition.

121. Voluntary Enlistment of Factories^a

BY HAROLD G. MOULTON

The most usual method of industrial mobilization is by means of what may be called the voluntary enlistment of factories in the production of war supplies. This is induced on the part of the government by means of an offer of high prices and large profits. This has sometimes been called the financial method of readjustment, because it involves the use of money as a medium for effecting the necessary readjustments.

The precise rôle that money plays in industrial society is confusing at all times to the economic novice, and it is perhaps especially so in connection with war. Our government is to raise the first year of the war \$19,000,000,000. It is to spend this vast sum in inducing people to furnish the materials that are required for military operations. These funds are to be passed through the Treasury Department in successive instalments, giving purchasing power while there, but

^aAdapted from "Industrial Conscription," *Journal of Political Economy*, XXV (1917), 917-45.

passing, in the act of purchasing, back again into the channels of industry. Money then is the means by which the government is enabled to buy the things it needs.

While the process thus far is perhaps generally enough understood, it is usually not so clear that if the commodities required by the government are to be found ready on the market when they are desired, the government must use the money placed in its hands in such a way as to induce capital and labor to be shifted into the production of the supplies and materials demanded.

Let us take some concrete examples. X, a manufacturer of automobiles, is offered a contract by the government to produce motor trucks for army service. If the price offered is attractive, and if the factory can be easily adapted to the manufacture of motor trucks, the manager will usually readily accept the government contract. Here we have a diversion of energy without great difficulty and without having to pay enormously high prices to accomplish it. But let us take a different case. Y is engaged in the manufacture of candy, or perfumery, or beer, or ceramics. The government seeks to induce Y's concern to manufacture war supplies. To do so would require extensive rehabilitation of plant if not indeed new factories altogether. Will Y change the character of his business? Purchasers of candy, perfumery, beer, and ceramics engage in direct competition with the government and seek to induce Y to continue his present business, by demanding the usual output of such commodities. The government must here greatly outbid private spenders if it is to secure the production of war supplies.

In this connection it must be borne in mind that the government is not a very effective competitor for either labor or capital—it must pay much higher returns than normal industry if it is to attract the requisite production. Why? Because the laborer does not usually feel the call of patriotism or the lure of adventure except when he contemplates entering the active military establishment. The pecuniary motive alone must generally be looked to as the means of inducing him to enter the industrial army of the government. He will not often voluntarily leave his position and apply for one in munitions factories at the same wages, because of the costs incident to transferring to a new (and often distant) employment, and because of the ephemeral nature of the demand for war materials. Very high wages are therefore required if he is to be tempted.

Similarly, the government must pay very high prices for the materials supplied if the capitalist is to be tempted into new and uncertain fields. Can he get efficient laborers for this work? How high wages will he have to pay? How long will the war last? These

are but a few of the questions the industrial manager has to ask and answer as best he may. Generally speaking, he will assume the speculative risks involved if the financial inducements are high enough, but not otherwise.

It should be observed in this connection that the government's inducement must be high enough to cover all costs incident to the transition into the war business, the losses due to high cost of operation while engaged in the manufacture of war supplies, and finally the losses incident to the transition back to peace-time industry of the period of reconstruction at the close of the war. Now there may be a few who would volunteer under any circumstances; but the general tendency in any event would be to delay as long as possible, to delay perchance too long to be of any assistance in the prosecution of the war.

It should be observed, however, that this method eventually results in a readjustment of business to war requirements. It is largely accomplished by a negative process—as a result of declining profits from normal operations, caused by a curtailment of consumptive demand. There are several reasons for this retrenchment in consumption. In the first place, the perfect barrage fire of argument as to the necessity of saving which has been hurled at the American public in recent months is bearing fruit.

In the second place, it is impossible for the rank and file of the American people to buy Liberty Bonds and spend as usual. If they buy bonds it must be at the sacrifice of accustomed luxuries. Moreover, we are now looking forward to the payment of taxes, and we are making our preparations for this by economizing in our normal purchases. It must be borne in mind in this connection also that at a time when the future is so uncertain a great many people are saying, "I had better save all I can now, because there is no telling whether it will be possible for me to save anything in the next few years."

Finally, it must be noted that the rapid rise of prices in nearly every line eventually forces rigid economy among the masses. Statistics published by the government early in 1918 show that retail prices of foodstuffs in the United States are now 57 per cent higher than they were in 1914, while general wholesale prices are 81 per cent higher. Students of the question are unanimous in the belief that prices will continue to rise here throughout the war, just as they have in the nations of Europe. It will therefore shortly be impossible for the masses of our people to devote much of their earnings to the purchase of nonessentials. They will count themselves fortunate if they are able to purchase enough of the necessities of life to sustain themselves in a state of normal efficiency. Already in many cases the

pinch of war prices is beginning to mean real privation.

These forces, however, do not for several years result in a complete shifting of productive energy from nonessential lines. The chief reason for this is that the laboring classes, who as a result of the war receive unprecedented high wages, are unable to resist the temptation to spend their new-found wealth for the luxuries and comforts of life, which have so long been denied them. This excess of purchasing power in the hands of the "rich war laborers" has had a striking manifestation in England; and it began to develop rapidly in the United States in the year 1918. A complete readjustment of industry can be rapidly accomplished, therefore, only by the exercise of some form of coercion on the side of production, such as the exercise of priority rulings or conscription of the use of industrial establishments.

122. Voluntary Mobilization of Labor¹⁰

BY LEON C. MARSHALL

In our industrial system the standard mechanism for inducing laborers to move is that of an offer of higher wages. This offer was readily forthcoming from the contractors in war industries, particularly from those who held "cost-plus-percentage" contracts, which made it actually to the profit of the employer to pay high wages for his workers. War contractors "bid away" from ordinary industries their skilled workers, disrupting in so doing some of the basic industries of the country, and then bid against each other for these workers. The lack of general planning, or indeed of general knowledge of the turn events were taking, caused wages to rise very irregularly in the various trades affected, in the various communities affected, and even in the different industrial plants within a given community.

The competitive bidding of the various contractors was accentuated by their firm belief that there was a scarcity of labor, particularly of skilled labor. It is not surprising that this belief should have been prevalent. There was undoubtedly a scarcity of certain kinds of skilled labor; there was a scarcity of many kinds of skilled labor in the congested districts; and the story of England's difficulties in providing skilled labor had been widely circulated. One feature of our situation was very generally overlooked. The scarcity of shipping made our problem very different from that of England. The actual situation is that, conceding scarcity of certain kinds of labor and of many kinds of labor in certain districts and of

¹⁰Adapted from "The War Program and Its Administration," *Journal of Political Economy*, XXVI (1918), 425-60.

maladjustment of labor supply in many districts, there is no real scarcity of labor, taking the country as a whole.

To this hectic wage situation there was added the fact that we did not have a satisfactory system of employment exchanges through whose activities the movement of workers could take place in an orderly fashion according to carefully determined requirements. The result was that the movement occurred in a highly disorderly manner, guided, if such a term may be used, by newspaper advertisements of private industries, by wild rumors of high wages in some distant locality, and by the patriotic desire of the individual worker to be of service. A plant manager in one of these war-industry towns said that "for weeks laborers milled around like cattle" in his town. The story is told of one community in which an investigator met incoming trains and watched workers accept employment in as many as six to ten plants in the same day, moving from one to the other in the hope of ever-higher wages and accepting employment in every one whose wage offer was larger than that of its predecessor.

There is, of course, no such thing as a "normal" labor turnover. Some writers have estimated that a labor turnover of 100 per cent per year represents average conditions. In these war industry plants a labor turnover of 400 or 500 per cent was regarded as low, and one of 1,600 to 2,000 per cent was by no means phenomenal.

123. Work or Fight¹¹

BY GENERAL ENOCH CROWDER

Every man, in the draft age at least, must work or fight.

This is not alone a war of military manoeuvres. It is a deadly contest of industries and mechanics. Germany must not be thought of as merely possessing an army; we must think of her as *being* an army—an army in which every factory and loom in the Empire is a recognized part in a complete machine running night and day at terrific speed. We must make ourselves the same sort of effective machine.

We must make vast withdrawals for the army and immediately close up the ranks of industry behind the gap with an accelerating production of every useful thing in necessary measure. How is this to be done? The answer is plain. The first step toward the solution of the difficulty is to prohibit engagement by able-bodied men in the field of hurtful employment, idleness, or ineffectual employment, and thus induce and persuade the vast wasted excess into useful fields.

¹¹Adapted from the order known by this name, July, 1918.

One of the unanswerable criticisms of the draft has been that it takes men from the farms and from all useful employments and marches them past crowds of idlers and loafers away to the army. The remedy is simple—to couple the industrial basis with other grounds for exemption and to require that any man pleading exemption on any ground shall show that he is contributing effectively to the industrial welfare of the nation.

124. Priorities¹²

BY ALVIN JOHNSON

Priority must be accorded to the services of war. When an army is to be moved all means of transport in sight are commandeered. When an army is to be fed, civilians protest in vain against the seizure of stores. So matters have stood since time immemorial. This is why it now seems merely common sense to enact a law giving the president authority to claim priority in the transportation of goods essential in the prosecution of the war. Whether the output of steel mills shall be assigned to the building of war ships, merchant ships, railways, office buildings, or summer hotels, should, we all feel, be determined by a like principle of priority. If we have as yet no law guaranteeing priority for military requirements in the field of production, we feel that this is merely a gap in our war arrangements, to be stopped for the present by patriotic action on the part of the producers themselves.

What is novel in the present-day conception of priority is its breadth of scope. When the whole industry of a nation is mobilized behind the fighting line, it is not merely finished munitions that must be given priority in transportation, but also the materials and fuel for further munitions production. The food supply of the industrial population, as well as that of the army, has a claim to priority. So also have clothing supplies, lumber for housing, and whatever else is essential to working efficiency. In production it would be impossible to fix definite limits upon the application of the priority principle. We can not much longer permit the free flotation of the securities of foreign enterprises, nor even of the less essential domestic enterprises, so long as national loans or issues designed to finance railways or industrial enterprises of prime necessity are to be floated. Modern warfare, in involving the whole national life, has made inevitable a control of business practically coextensive with the economic system.

The application of the priority principle to transportation and

¹²Adapted from "What Priority Means," *New Republic* (June 30, 1917), p. 237. Copyright.

production is quite in accord with plain common sense. It is none the less revolutionary in its social economic implications. What it means is that necessities shall have right of way. If we have excess productive capacity, the unessentials and luxuries may be provided, but not otherwise. And necessities are definable in terms that take account only of physical requirements. There is no room in the definition for class distinctions. A new country house may seem a matter of necessity to the man of fortune, but he will persuade no priority board to permit shipments of building material while cars are needed for coal or wheat. Nor will he persuade them to let him have lumber that could be used for ships or workingmen's camps, or labor that could be employed to advantage in production for more clearly national and democratic needs.

125. Industrial Conscription¹²

BY HAROLD G. MOULTON

By industrial conscription the government could transfer laborers from the industries that are unimportant to the fields of production that are imperatively necessary as rapidly as is required, without waiting, possibly indefinitely, for public economizing to force readjustment through the decline of profits and the closing of factory doors. Industrial establishments engaged in manufacturing commodities that are unnecessary for war purposes could by industrial conscription be forced to convert themselves at once into factories for the manufacture of munitions and other war materials. New construction that is not necessary for war purposes could be halted and the energy engaged therein diverted to the channels where imperatively demanded. Such a system would reduce to a minimum the social loss of time and energy incident to the transition period. *Wisely administered* (note the qualification) upon a basis of what may be called selective industrial conscription it would eliminate a great part of the confusion, disruption, and maladjustment incident to the ordinary financial method of readjustment.

Not only are the social losses involved in the transition less than under the method of gradual readjustment, but the direct losses to capitalists are almost certain to be less. Assume that *time* permits a gradual transition covering a period of two or three years. Would the losses through gradual readjustment by means of the financial machinery be less than through direct commandeering? The former method means vainly struggling along in present lines with lower

¹²Adapted from "Industrial Conscription," *Journal of Political Economy*, XXV (1917), 917-45.

margins of profits and heavy losses as reduced sales gradually develop; it is likely to mean with any given establishment months of loss before bankruptcy and then a considerable interval of no business at all while attempting to fit itself into newer lines of production. Only in cases where the rehabilitation of factories is a simple process can the conversion be made without heavy losses. Even in these cases, however, the tendency will be to delay the fatal step as long as possible, and this means until the pinch of declining profits is no longer tolerable. Under the method of industrial conscription, however, the conversion could be forced before the decline in profits threatens insolvency. And, moreover, the losses attending the entrance into the new lines of industry could be reduced to a minimum by directing capital to the places of greatest need. It is a method, substantially speaking, of carefully planned adjustment by a board of experts acquainted with the entire situation, as against the slow and uncertain method of trial and error by business men who hope and believe that business will continue as usual, and who, when eventually forced from present lines of activity, find themselves only partially or inaccurately acquainted with the government's requirements.

But aside from all this it must be emphasized that the method of industrial conscription saves what is at present more precious than gold itself—it saves time. If selective conscription of men may be justified on the ground that the volunteer system is hopelessly slow and uncertain where speed and certainty are indispensable, may not conscription of industry be justified on the same grounds? If ships, munitions, and food rather than soldiers are to render our greatest service to our Allies, why resort to the method of efficiency in the raising of armies and the method of inefficiency and uncertainty in the raising of crops and supplies?

Shall we answer, Because conscription of industry is un-American, because it places autocratic power in the hands of a democratic government and strikes at the very foundation of our institutions—private property, vested interests, free initiative, individual liberty, competition, and all the rest? A similar answer may be, and has been, made with reference to military conscription, but we have overruled that objection mainly on the ground that the time element is so tremendously important that ordinary peace-time principles and ideals have to give way. Much as we may dislike the principle and method of conscription, do we not dislike and fear the alternative—the indefinite eclipse of democratic institutions—more?

In one important respect industrial conscription is incomparably less objectionable than military conscription. The man who is com-

pelled to serve in the army is forced to offer life itself in the cause for which he is enlisted; the man who is compelled to close his factory or convert it to different uses, the man who, as a laborer, is compelled to change his employment, at best offers but his services for a smaller remuneration. It is the old question of life versus property. The nation which protests and believes that there is *all* difference between a prize court and a submarine—between temporary detention of our ships and their cargo and legally determined compensation after the war and the sinking of our ships and citizens without a warning—can make so far as justice is concerned only one decision on the question of industrial versus military conscription.

The method of industrial conscription obviously raises enormous problems of its own. How shall we provide the machinery necessary to its successful administration? Who shall be given the power to decree life or death for industrial establishments in the exercise of the selective requirements of the plan? Who shall decide what industries are important to keep alive in war time—for recreational and cultural purposes as well as for physical and military requirements? What man or what body of men can be found with the necessary omniscience, with the requisite prevision, for such a method of industrial reorganization? I have spoken of a board of experts, but a friend of mine remarks: "We may call them experts but that does not make them really expert; they would be sure to make no end of mistakes; they are not in a position to determine in anything approaching a scientific manner what lines of human endeavor count for most." That there is point to such contentions in piping times of peace I would be the last to deny, but in time of war the problem is profoundly changed. An administrative board giving its entire time to the study of the situation could, it seems to me, determine and guide with considerable wisdom the apportionment of our national energy. The insistent demands of the War Department for ships, for munitions, for supplies furnishes abundant evidence of the things that are needed most; the demand side of the problem certainly has no insuperable obstacles. The determination of what particular commodities shall be dispensed with is perhaps not so simple a task. But could not any of us upon reflection think of a score of commodities that are less important for war purposes than shells, than food, than shovels, than airships? We need not look for 100 per cent efficiency in order to justify the effort. Any percentage of efficiency would be a net gain over the present method of sheer inefficiency.

D. MOBILIZATION IN LIBERAL COUNTRIES

126. The Penalty of Taking the Lead¹⁴

BY THORSTEIN VEBLEN

An industrial system which, like the English, has been long engaged in a course of improvement, extension, innovation, and specialization will in the past have committed itself, more than once and in more than one connection, to what was at the time an adequate scale of appliances and schedule of processes and time adjustments. Partly by its own growth and by force of technological innovations designed to enlarge the scale or increase the tempo of production or service, the accepted correlations in industry and in business, as well as the established equipment, are thrown out of date. Yet it is by no means an easy matter to find a remedy; more particularly is it difficult to find a remedy that will approve itself as a sound business proposition to a community of conservative business men who have a pecuniary interest in the continued working of the received system, and who will not be endowed with much insight into technological matters anyway. So long as the obsolescence in question gives rise to no marked differential advantage of one or a group of these business men as against competing concerns, it follows logically that no remedy will be sought. An adequate remedy by detail innovation is not always practicable; indeed, in the more serious conjectures of the kind it is virtually impossible, in that new items of equipment are necessarily required to conform to the specifications already governing the old.

So, e.g., it is well known that the railways of Great Britain, like those of other countries, are built with two narrow gauge, but while this item of "depreciation through obsolescence" has been known for some time, it has not even in the most genial speculative sense come up for consideration as a remediable defect. In the same connection American, and latterly German, observers have been much impressed with the silly little bobtailed carriages used in the British goods traffic; which were well enough in their time, before American or German railway traffic was good for anything much, but which have at the best a playful air when brought up against the requirements of today. Yet the remedy is not a simple question of good sense. The terminal facilities, tracks, shunting facilities, and all the ways and means of handling freight on this oldest and most complete of railway systems are all adapted to the bobtailed car. So, again, the roadbed and metal, as well as the engines, are well and substantially constructed to take care of such traffic as required to be taken care of

¹⁴Adapted from *Imperial Germany and the Industrial Revolution*, pp. 124-28. Copyright, 1915. Published by B. W. Heubs New York.

when they first went into operation, and it is not easy to make a piecemeal adjustment to later requirements. It is perhaps true that, as seen from the standpoint of the community at large and its material interest, the out-of-date equipment and organization should profitably be discarded—"junked," as the colloquial phrase has it—and the later contrivances substituted throughout; but it is the discretion of the business men that necessarily decides these questions, and the whole proposition has a different value as seen in the light of the competitive pecuniary interest of the business men in control.

This instance of the British railway system and its shortcomings in detail is typical of the British industrial equipment and organization throughout, although the obsolescence will for the most part perhaps be neither so obvious nor so serious a matter in many other directions. Towns, roadways, factories, harbors, habitations, were placed and constructed to meet the exigencies of what is now in a degree an obsolete state of the industrial arts, and they are, all and several, "irrelevant, incompetent, and impertinent" in the same degree in which the technological scheme has shifted from what it was when these appliances were installed. They have all been improved, "perfected," and adapted to meet changing requirements in some passible fashion; but the chief significance of this work of improvement, adaptation, and repair in this connection is that it argues a fatal reluctance or inability to overcome this all-pervading depreciation by obsolescence.

All this does not mean that the British have sinned against the canons of technology. It is only that they are paying the penalty of having been thrown into the lead and so having shown the way. At the same time it is not to be imagined that this lead has brought nothing but pains and penalties. The shortcomings of this British industrial situation are visible chiefly by contrast with what the British might be doing if it were not for the restraining dead hand of their past achievement, and by further contrast, latterly, with what the new-come German people are doing by use of the English technological lore. As it stands, the accumulated equipment, both material and immaterial, both in the way of mechanical appliances in hand and in the way of technological knowledge ingrained in the population and available for use, is after all of very appreciable value; though the case of the Germans should make it plain that it is the latter, the immaterial equipment, that is altogether of first consequence rather than the accumulation of "production goods" in hand. These "production goods" cost nothing but labor; the immaterial equipment of technological proficiency costs age-long experience.

127. Social Customs and Efficiency in War¹⁵

BY HAROLD G. MOULTON

In Anglo-Saxon and Latin countries women are traditionally home-keepers. In the Teutonic nations they are traditionally co-workers with their men in the work of the world. This difference in social custom is proving at the present time one of the powerful factors in the world-war.

The information has been disclosed that the allies were outnumbered on the western front in the spring and early summer of 1918. It has seemed impossible to many people that this could be true; for—leaving America out of consideration at this period—is not the population of Great Britain, Canada, Australia, France and Italy greater than that of the Central Powers? It has seemed incredible that the Allies could be outnumbered in face of the indisputable population statistics.

Numerous explanations have been offered for the enigma. The one most frequently given is the dissipation of British forces in consequence of the necessity of keeping troops in Mesopotamia, Egypt, and Saloniki; the maintenance of a large naval force, etc. Another explanation is the more effective utilization by Germany of her prisoners of war, including civilian populations from conquered territories, the number of such prisoners employed on farms and in industrial establishments in Germany being estimated in 1917 at one million two hundred thousand. Still another explanation is that the German organization has more effectively mobilized the man power of the country in consequence of a more rigid curtailment of non-essential production. Not so many men are required back of the lines in Germany relatively to the number engaged at the front as in the allied countries, particularly in England, where many are still engaged in pursuits which are relatively unimportant. The most important factor in the situation, however, appears to be the part that women play in industry. It has been estimated that there were one million five hundred thousand women engaged in British industry in the spring of 1918. The English have derived great satisfaction from this remarkable showing and it has given rise to numerous volumes and scores of articles. Under the circumstances, that is, in view of the age-old tradition against women in industry, the British women have done extremely well. Their spirit, in the face

¹⁵Adapted from an article with the foregoing caption in Clark, Hamilton, and Moulton, *Readings in the Economics of War*, pp. 155-57. Copyright by the University of Chicago, 1918.

of a most cherished heritage, coupled with powerful opposition from British trades unions, is admirable. But in contrast with the part women are playing in the Central Powers this showing could in the spring of 1918 cause only anxiety as to the outcome of the struggle.

The German woman's participation in agriculture is proverbial, and the war has of course necessitated an even heavier carrying of the burden of agricultural production by female labor. This is equally true in Austria, Bulgaria, and Turkey. But it is not only in agriculture that the German women are playing a tremendously important rôle. Even before the war there was a steadily increasing flow of women into industrial pursuits in Teutonic countries. While the complete statistics for women in industry in Germany at the present time are not available, it was reported that as early as the middle of 1916 there were more women than men employed in the great metal industries of the Berlin region, and on March 1, 1917, it is reported that there were 3,973,457 women insured in the sick-benefit funds of Germany. Inadequate as these data are, they clearly show an enormously greater participation of women in essential production in Germany than in England. Between the ages of eighteen and forty-five there are in the neighborhood of 11,000,000 women in Germany, and it is probably a conservative estimate that three-quarters of these are effectively employed in the creation of the basic necessities for modern warfare. With 8,000,000 German women in industry as against 1,500,000 women in English industry it means a release of 6,500,000 men, roughly speaking, for the military establishment. Nor do knitting and other forms of household manufacture take the place of machine production; they may reduce the above difference, but they do not eliminate them. The German organization is thus enabled to place a much larger percentage of the man power of the nation in the army than it has been possible for the Allies to do. Possibly, in view of Anglo-Saxon social sanctions, it is the best that we can hope that at the end of four years of war 1,500,000 British women should be engaged in industry. If so, we must set it down as one of the serious economic liabilities of the Allies, a liability which can be offset only by such a marked superiority of man power as the entrance of America into the conflict affords. It is important to remember, however, that without America's entrance into the war the Allies would quite obviously have had to succumb through defeat on the western front, a defeat made possible because the "economic position of women" in the Central Powers is such that they have been enabled to place a larger percentage of their man power in the active military establishment than have the Entente nations.

128. A Nation of Amateurs¹⁸

BY LEON C. MARSHALL

The problems which faced our national leaders upon our entry into the war were literally staggering. A nation whose whole tradition was one of peace was to be placed in the physical and mental attitude to wage war. Its human and industrial resources were to be reorganized to meet the drains of war. For the direction of these tasks there was a pitifully inadequate staff of officials—inadequate in numbers, in training, in outlook, and in authority—who had not even had in proper measure the advantages flowing from preliminary planning.

Under the circumstances, it is not surprising that much industrial confusion attended our efforts. Conditions in the Ordnance Department may be taken as an example of the difficulties involved. At the outbreak of the war this department had on duty nine commissioned officers at Washington and a total of ninety-seven in the entire country. Its peace-time expenditures had been about \$13,000,000 per annum. From this nucleus there was developed in one year a staff at Washington consisting of 3,000 officers, 1,700 enlisted men, and 9,200 civilians, with a total of 5,000 officers in this country and abroad. This mushroom staff had charge of direct appropriations and contract authorizations amounting to several billions of dollars; it set up the mechanism for controlling the production of this quantity of material (for of course it could not be procured on the open market and its production had to be supervised); it provided the administrative forces for storing and handling, both in this country and abroad, the material when it had been produced and delivered. The enterprise was conducted in a fashion that was, upon the whole, admirable. Men could not be trained overnight, but able engineers and business executives were called into the service, assigned to duties in the various divisions of the work, given a considerable range of authority, and held responsible for results.

Admirable as was the approach of our higher officials to the problem placed before them, defects in operation resulted from insufficient planning and from the impossibility of training subordinates properly in the time available. It would be an unpardonable injustice to assert that the programs of the production departments were carried out with little planning. No one who came into contact with the overburdened officials responsible for the execution of these programs would make such an assertion. It is true, however (through

¹⁸Adapted from "The War Labor Program and Its Administration," *Journal of Political Economy*, XXVI (May, 1918), 425-28.

little fault of theirs), that their planning was hastily done and was not well co-ordinated. Each production department and indeed each subdivision of each production department plunged into the execution of the task assigned to it, knowing little, and often caring less, how its actions would affect the execution of the programs of others. The officers in charge, particularly the subordinates, saw no other course open to them. They had been trained in our school of individualistic enterprise where "results" counted—"results," however, which did not depend upon national team work, since the projects involved did not demand the effective utilization of all the resources of the nation. The country demanded "results." In the absence of co-ordinating supervision at the top it seemed clear to the average production officer that his patriotic mission, to say nothing of his chances of preferment and promotion, began and ended in his "pushing his own program through." And he had a reputation as a "pusher." He was the veritable "he-man" so popular in Washington dispatches. He had superlative contempt for the "super-co-ordinator" who dared ask whether the nation's interests did not require studies in priority and carefully balanced production. Furthermore, this "pusher" was almost certain to have accepted the prevailing fallacy that the expenditure of dollars rather than materials would win the war. He accordingly placed his emphasis on grinding out contracts for vast quantities of materials—an emphasis which the contractors themselves were not averse to stimulating. Under such conditions one can well believe that carloads of hull paint were delivered at shipyards where the ways had not yet been laid on which the hulls were to be constructed. The nation's resources, unadjusted as they were, could not adequately meet such haphazard demands.

The conclusion resulting from the apotheosis of the Great American Pusher was accentuated by difficulties arising from another quarter. Since there was little or no guidance from the top, since the industries and labor resources of the country had never been effectively catalogued and classified for military purposes, since war contracts of European nations had been centered in certain districts, and since the successful business managers and engineers called into the government service came mainly from the industrial districts of the country, the outcome of the zeal of the contracting officers was a tremendous concentration of contracts. When stock could be taken of the situation it was discovered that, aside from the contracts of the Shipping Board, one-fourth of all the government contracts for war purposes had been located in the state of New York alone, one-half in three states (New York, Pennsylvania, and Ohio), and three-fourths in seven states (New York, Pennsylvania, Ohio, Massa-

chusetts, Illinois, New Jersey, and Connecticut). A greater dispersion existed in the case of the Shipping Board contracts because the vessels themselves were to be built all along our deep waterways. It is not improbable, however, that the contracts for accessories needed in shipbuilding showed a somewhat similar concentration, and the general belief is that the contracts of our Allies were quite as heavily concentrated.

The war-industry districts arising from this concentration of contracts rapidly extended existing plants and built new ones. They reached out to the rest of the nation for materials, money, and men, They required that scores of thousands of workers be transferred to them from districts where war work was not being done. Then followed a tremendous congestion of transportation facilities—a congestion that was later to play its part in causing the issuance of a so-called fuel order which was really an order to relieve an “industrial jam.”

129. The Consumer's Dilemma

a) *The Appeal to Spend*¹⁷

DON'T BE A BUSINESS SLACKER

Right now the man who allows fear to paralyze the hand he writes checks with is just as dangerous to his country as the deliberate crank who throws a bomb.

The —— Motor Corporation believes that the business slacker here at home is our one real enemy—far more of an enemy than the Kaiser, because the Kaiser cannot get at us.

If you cannot thrust a bayonet, you can at least drive your business harder than you have ever driven it before and thus help create the imperative prosperity with which alone this war can be won.

It betrays weak-mindedness to think of driving headlong into the period of panic, penance, abject fear and hysterical economy.

The man who sneaks down and buys a marriage license life-preserver is not the worst breed of slacker. Conscription will take care of him. But for the business slacker there is no law but his own conscience. The man who destroys business takes bread out of the mouths of thousands.

No matter what comes—

Don't be a business slacker.

Right now is an almighty good time to take the bull by the horns and look him square in the eye. America is at war. It is a big war—a

¹⁷An advertisement appearing in the *New York Times*, May 15, 1917.

very big war. It may be a long war, and when we try to imagine what may happen no one can blame us for looking serious.

But there is absolutely no reason for being scared, or, in a business way, even apprehensive.

We cannot avoid the firing line—we can avoid the bread line.

War is transient—the United States is permanent.

The demands on us will be great—but our resources are inexhaustible. The United States today has the larger part of all the real money in the world. But money is just like men—if it is inactive it is useless. While we are talking about making our factories and our farms *produce*, let's not forget to keep our money producing. We will encounter serious problems, but American ingenuity and inventive genius is equal to any emergency.

We are going to win this fight because we are on the side of *right*—and when we come out of it *we are going to be a real honest-to-God nation*.

Meanwhile, what about business?

The real barometers of America's business are the smokestacks of her factories—her dinner pails—and the mouths of her one hundred millions.

America is going full speed ahead—don't let anybody talk you out of that.

Even if America desired hard times, the world would refuse her the wish. We have been conscripted as the world's kitchen, the world's shipyard, the world's bank—the world's general business manager—*carte blanche*.

America is bound to be prosperous. That's her part in the war. Someone must keep wealthy enough to meet this war's pay-roll. That's our job. As a result, the great mass of men, women, and children in this country can no more avoid getting money out of this present emergency than a lily in the rain can avoid getting wet.

Get these facts through your head, for they are the only true facts on which you can base your business plans.

America has taken what amounts to a seven thousand million dollar order.

Mind you, this is only the first of many such orders. Seven thousand million dollars' worth of shoes, guns, munitions and *what not* must be manufactured and delivered.

Who gets the *seven billion*?

If you are a merchant, every customer on your books will get a piece of it. If you are a manufacturer or mechanic, you yourself will get your part of it.

There is going to be no *non-productive* labor or capital in this country. Everybody must produce—which means that everybody must be on somebody's pay-roll.

For at least three years America cannot avoid being the most prosperous nation the world ever saw.

America's wealth is about to be redistributed and put in the hands of our people.

—not in the hands of the hoarding few. When our people get money they have the courage to spend it.

So look out for big business—*tremendous and inevitable big business*—and get ready to take care of it when it comes.

We assure you that the ——— Motor Corporation, for one, proposes to keep right on building and selling and creating its share of the wealth with which this war must be fought, and we have reason to believe that the whole motor car industry feels exactly the same way about it.

The biggest week ——— ever had was last week—our biggest day so far was yesterday.

—and it looks now as if we had only started—proving that honest merit still wins. ———, with its unheard-of advantages and its unquestioned quality, constitutes real economy at \$1985.

If you have thought of buying a car this year, go ahead and buy it.

Meanwhile remember that the man who allows fear to paralyze the hand he writes checks with is as dangerous to his country as the deliberate crank who throws a bomb.

———— MOTOR CORPORATION.

b) *Practical Patriotism*¹⁸

HOTEL

ST. ——— BROADWAY ——— ST.

Tables Are Now Being Reserved for New Year's Eve.
\$4.00 Per Cover

Elaborate preparations are being made to make this a thoroughly patriotic American and Allied introduction to 1918. Special orchestra and leading singers have been engaged to carry out a program of international and topical songs and music.

Orchestra

"Soldier Boy" Souvenirs

Reservations May Be Made by Telephone, Columbus —

¹⁸An advertisement appearing in the *New York Times*, December 28, 1917.

c) *Consumptive Slackers*¹⁹

BY THOMAS NIXON CARVER

If I were to stand on the street corner or some other public place and lift up my voice in impassioned oratory to persuade men to stay out of the army and the war industries, saying to them, "Don't enlist! Don't go into the shipyards! Don't go into the munition factories! Don't go into the coal mines! Don't work for the railroads! Don't go onto the farms to help produce food!"—I should certainly be mobbed, if the police did not take me to jail, and I should deserve all the rough treatment that I should receive.

There are other and more effective ways than street oratory of persuading men to stay out of the industries which are essential to the running of this war. Street oratory seldom accomplishes anything, and the street orator who tries to keep men out of the war industries is not a very serious menace, though he ought clearly to be abated as a public nuisance. If I really wanted to accomplish such a disloyal purpose as to keep men out of the war industries, I should spend as much money as I could for nonessentials and should advise everyone else to do the same. I should publish articles advising against too much economy and should do all in my power to get people to spend their money for nonessentials. I should advertise nonessentials in as alluring forms as I could invent. Every dollar which is spent for these things will hire someone to make and sell them, and the more these things are bought the more man power will be hired to stay in the nonessential and out of the essential industries. That is a much more effective, as well as a much safer, way of keeping men out of the war industries.

I am not a believer in mob violence, but if there is anyone who deserves to be mobbed, it is not these poor simpletons who make ineffective speeches against working in the war industries, though they are bad enough: it is rather those respectable people, some of them in positions of high authority, who still persist in advising people that they must continue spending their money freely for things which they do not need, in order that business may not be disarranged.

130. The Curtailment of Nonessentials²⁰

The Council of National Defense recently undertook an investigation to determine whether purchases by civilians in the United States have been increasing or decreasing during the war period. One of

¹⁹From the *New York Evening Post*, February 11, 1918.

²⁰Adapted from "Progress in Curtailment of Nonessentials," in the *Federal Reserve Bulletin* (September 1, 1918), pp. 852-55.

the most illuminating statements was furnished by a very large business house dealing directly with consumers throughout the entire country. Because of the diversity of the merchandise handled and customers served, the business of this firm may be considered a reasonably accurate barometer of comparative purchasing activities. The following conclusions are taken from the statement prepared by the firm. Boys' clothing shows a marked decrease in the quantity purchased in the higher priced lines, while all items of small money value show a sufficient increase to offset this. Work clothes show a great increase, with the percentage of value very much larger than the percentage of quantity. Men's furnishing goods show the largest decrease in quantity of all the men's apparel lines. Women's dresses alone show a quantity increase of about 32 per cent. The decrease, however, in suits, skirts, and misses' dresses is sufficient to offset this increase and brings the entire line down to a volume equal only to that of last year. In shoes the total quantity decrease is about 33 per cent.

As regards furniture, the slight decrease in the heavier lines shown in this company's business may be due as much to congested traffic conditions discouraging purchasing from a distance as to a decrease in demand. Curtains, drapes, and floor coverings show about an equal quantity. In rugs there is an unusually good demand for the smaller sizes, with a considerable falling off in the larger. Crockery and glassware show a marked increase in quantity.

There is a decided increase in sales of small-sized diamonds and a falling off in sizes from one-half carat upward. Watches are in great demand especially wrist watches, which have been enormously popularized by the war. Fountain pens and stationery show a decidedly increased demand, for the obvious reason that so many men are leaving their homes. The quantity of cigars and tobacco shows a noticeable increase, which can be accounted for by the slogan, "Smokes for the soldiers." Face powders and creams show an increase. Toilet articles, such as manicure and shaving sets, brushes, and combs show a decrease. There is a great demand for pianos and organs. The company was unable to make comparisons about the demand for phonographs, since it entered the field in earnest only in the fall of 1917. The increase in demand for bicycles and sundries seems to come from industrial centers, indicating that workmen are using them in going to and from their plants.

In general terms the firm states, in the first place, in merchandise for women's exclusive use, it is certain that sales are increasing. This is possible because thousands of women never before employed are now earning very fair wages, while others previously employed

are earning increased wages. Luxuries and semi-luxuries, such as musical instruments, watches, jewelry, and diamonds, show an increase in quantity as well as in dollars, giving an impression of general prosperity.

The company expresses the belief that economy is being practiced by well-to-do persons and those of moderate means, while the increased compensation received by large numbers of people previously somewhat more restricted in purchasing power has made it possible for them to buy more freely of the articles considered luxuries.

In terms of geographical location, the company says that in the South especially in the cotton-growing states, its business is better than ever before. In the far West the civilian population is buying freely and in greater quantity than in previous years. In the northern states of the Middle West buying is more conservative and more restricted to staples and necessities, but the volume is at least equal to the average. In the East there is a rather marked decrease in the quantity of purchases, especially in nonessentials; in fact it is quite noticeable even in essentials.

E. GETTING OUT OF WAR

131. The Rate of Demobilization²¹

A problem of moment is the rapidity with which demobilization is to be effected. How speedily the whole process moves is, perhaps, an affair of no great moment, except as it involves losses in human and material resources through delay in getting them back into ordinary uses. It is much more important that the two principal movements, flow into the labor market and re-employment, should go on at the same rate. To determine what conscious control of the rate of demobilization is possible we must separate it into its elements and enumerate the contingencies upon which each depends.

The flow of labor into the market for employment will, during the demobilization period, be made up of five principal streams. These are: (1) demobilized men now under arms abroad; (2) demobilized men now under arms in the United States; (3) workers involuntarily discharged from munitions industries; (4) immigrants; and (5) young people coming upon the labor market for the first time. The rate at which each of these streams comes into the market is more or less subject to control. Since the governing factors vary

²¹Adapted from an anonymous article entitled "The Problem of Demobilization," *Journal of Political Economy*, XXVI, 923-29. Copyright by the University of Chicago, 1918.

from group to group, each of these rates will have to be discussed separately.

1. The rate of release of men under arms abroad depends upon a combination of military and industrial considerations. Of these the most important are military expediency and shipping.

Military expediency is of importance both for determining the time at which demobilization is to begin and for affecting its rate. Men cannot be released so long as the military situation requires their presence under arms; and, when release begins, they can be spared only as the passing of military necessity dictates. Since actual hostilities against an armed enemy are over, the first check upon the rate of release lies in the terms of the armistice which requires the presence for some months of large forces upon the frontier. A second check lies in the necessity of using men for police purposes even after peace in what were recently the Central Empires, in Russia, and in the Balkans.

It is more likely that shipping will prove to be the limiting factor in the release of over-seas men. The rate at which they can be returned can be ascertained only by estimating the tonnage available for transport service during the period of need. This inquiry resolves itself more specifically into the following matters of fact and policy.

The amount of American shipping at the end of the war must be determined. A reasonably accurate anticipation of this at any future time may be had in terms of prospective building. An estimate must be made of the rail increase in transport facilities which can now be effected through a reorganization of shipping. This will include the addition of vessels now used for transport purposes and of cargo ships converted into transports. It will also include gains in tonnage from the discontinuance of circuitous routing and from a separation in the direction of the movement of supplies and men, both of which during the war went in the same direction. Lastly, the amount of shipping available for transport as against trade purposes must be determined.

The availability of foreign ships for the transport of American soldiers is still undetermined. We relied heavily upon British and neutral tonnage to get our soldiers to France; but it is not certain that they can now be relied upon to get them back. Britain will be under obligations to give preference to the troops of her own colonies. In addition, there will be an insistent mercantilist demand for immediate use of her ships in foreign trade. Whether German vessels, now tied up in her own and neutral ports, will be available is still undecided. A chance to use them may come from their confiscation, from accepting their use as part payment of an indemnity

to the Allies, or from an understanding with the successors of our erstwhile enemy. These uncertainties involve so large a percentage of possible tonnage as seriously to affect the rate at which soldiers can be brought home.

The assumption above has been that men are to be mustered out of service as rapidly as the military situation and transportation facilities permit. American sentiment demands the return of husbands and sons with the utmost dispatch. The belief is universal that if they are returned faster than they can be absorbed into industry it is better to stimulate employment than to retard demobilization. But the possibility of equalizing employment with discharge by checking the rate at which men are mustered out of service is an alternative that must be considered.

2. The rate of release of men under arms in the United States is, perhaps more than any of the other rates, subject to control. It may be decided to speed discharge or to delay discharge according to the amount of available employment. But in view of the popular sentiment demanding a return of kindred, and of political pressure to reduce the national budget with the utmost dispatch, it is doubtful whether discharge of these men can be long delayed. In addition it seems much wiser, as a matter of public policy, if the men cannot be reabsorbed into industry, to utilize their labor effort upon public work of permanent value than to allow it to go to waste. An alternative that will doubtless be considered is training them and sending them overseas to take the place of men longest in service abroad. If transport is the limiting factor in the discharge of the army abroad, such a plan merely accentuates the problem. But if military need controls demobilization, men going abroad make possible a more rapid discharge of the army in Europe. In this event the question ceases to affect the rate of demobilization and becomes one of personnel.

3. The most troublesome factor in the problem is the rate of release of workers in war industries. The rate of discharge of soldiers is subject to the direct control of a single authority, that of war workers to many. Public opinion, too, is much more concerned with finding positions for returning soldiers than with avoiding the unemployment of men and women at present engaged in industries with a frail hold on life. In addition it is by no means improbable that to those discharged from war industries must be added a host from non-war industries where places have been given to soldiers. Thus one employment problem, instead of being solved, may be translated into another. It is more likely that, because of imperfect control, the war workers will be turned loose to flood the market and that,

later, soldiers will be discharged into a market already gutted with surplus labor. Even before the armistice was signed many laborers were discounting discharge by returning to non-war employment. The change can be avoided and the rate can be controlled only by the establishment of a central agency for the clearance of all contracts and a policy for their gradual cancellation. Even at best this will provide a very uncertain check upon the rate of flow of ex-war workers into the labor market.

4. The rate of immigration is subject to control both by conscious decision and by the physical fact of shipping. If we choose we may prohibit all immigration so long as there appears to be danger of an oversupply of labor. Or, instead, we may prohibit the coming of certain types of immigrants most likely to interfere with employment here. In fact, the present law imposes serious handicaps upon the entrance of unskilled labor into this country. In addition it is more than possible that many European countries will impose restrictions upon emigration, despite the desires of many people of the war-ridden countries to come to America. If the discharge of men overseas were to start at once the limited supply of shipping would prove an effective check upon immigration until the army is demobilized. If it is to be delayed for some months, despite the poverty of Europe, there is a prospective flood of immigrants to be faced and an immigration policy to be framed.

5. In addition the stream of young men and women seeking employment for the first time will flow on as usual during the demobilization period. The shorter the period of demobilization the fewer of them there will be to be reckoned with. But while their numbers add to the seriousness of the problem, it does not follow that demobilization should be effected slowly merely in order to prevent the problem from being complicated by large numbers of the industrially uninitiated.

Together these factors determine the rate at which workers are to flow into the labor market. Together they determine the rate at which employment must be found for them. Some of the considerations mentioned above can be reduced to definite statement by securing facts more or less accessible. Others depend upon future policy which can be anticipated with fair precision. Still others rest upon events and judgments still too uncertain for anything more than a guess. While such uncertainties prevent an accurate statement of the rate of discharge, it is obvious that the wider the range of information and the more accurate its character, the more fearlessly and intelligently can the problem of controlling the rate of discharge from the army be met.

132. Keeping Production Up²²

BY DAVID FRIDAY

The most important, and difficult task just ahead is to maintain the productive level of which we found ourselves capable during the war. We have increased our output of products from 25 to 30 per cent over the pre-war period through the complete utilization of our natural resources, our plant and machinery, and our labor. If production is allowed to return to the pre-war level output will slump off by 20 per cent. This would mean a corresponding waste of productive resources and a decrease of \$14,000,000,000 per annum in our national income as measured by the present price level. In view of the magnitude of this waste the government can well afford to spend several billions of dollars per annum if need be to maintain the level of productive output. The essence of the process would be that we would waste two billion dollars of our productive capacity in order to keep ten to fourteen billion dollars' worth of resources from running to waste because of unemployment. The result is a net addition of ten billion dollars to our national income. The alternatives presented by this situation are not government expenditure of this amount as against private expenditure; they are government expenditure of several billions as against a waste of productive resources many times as large.

A decline of the high level we have reached during the last two years will bring about a lowering of the standard of living which our laboring classes have attained during the war. It will prevent the possibility of that improvement in the standard which we should realize now that we have ceased wasting a large part of our output on war. It will mean a decline by half in the volume of annual savings which we have made during 1916, 1917, and 1918. During the war the excess of production over consumption has grown from six and a half billions in 1913 to over twenty billions in 1918; it has made possible the furnishing of thirteen billion dollars of capital to foreign nations, the addition of over one billion dollars to our stock of gold, an enormous extension of our plant equipment, and the prosecution of eighteen months of war without any appreciable diminution of the standard of living of our people. Finally, such a decline will have as its concomitant a period of widespread unemployment.

It is relevant here to recognize the dependence of employment and industrial output upon the state of business enterprise. Considered as a problem in business psychology the task is that of maintaining the exuberant spirit which has characterized business during the last

²²Adapted from "Maintaining Productive Output—A Problem in Reconstruction," *Journal of Political Economy*, XXVII, 117-26. Copyright by the University of Chicago, 1919.

three years. If this spirit can be maintained, it is safe to presume that our labor, our natural resources, and our plant and machinery will be fully employed; that our productive output will be large; and that the fund available for taxation will be ample to meet the needs of the federal government as easily as they have been met during the past fiscal year. In fact, the problem of unemployment, of the maintenance of productive output, and of fostering business enterprise are at bottom one and the same problem.

The fundamental fact that demand and production are interdependent and that therefore domestic demand is determined primarily by the state of domestic employment is the first great lesson to be grasped. The demand for goods will depend primarily upon the purchasing power of the masses, and the volume of production can be maintained only through the complete employment of labor. This means that the business men as a whole have in their hands the size and scope of the combined demand presented by the markets of the country. From the standpoint of national enterprise the problem is, not so much how to capture the markets that exist at the end of the war, but rather how to keep the various markets co-ordinated in such a manner that the sellers in one group of markets will be steady buyers of the things which other markets offer.

Our business men and legislators must be shown that the great mass of demand for American goods must come from American buyers and not from foreign trade. There is much misunderstanding on this point. There seems to be a general impression that with our huge added capacity we should have to add almost all the world's trade to our own for consumption to equal our present capacity. An elucidation of principles and a collection of facts which would succeed in turning the attention of the American business man to the development of regulatory machinery for the control of the business cycle, rather than the control of imports and exports, would be a great attainment.

If entrepreneurs are to enter upon an active program of converting plants and producing goods they must have a credit situation which will put them in possession of the necessary funds. Here the government's policy in settling claims arising out of the cancellation of war contracts will play an important part. If these are settled promptly, entrepreneurs will have available bank credit; if not, they will have undertaken claims against the government which will be settled only after years of litigation. The effect of prompt settlement upon the resumption of productive activity should be ascertained with some degree of quantitative definiteness. The government can then determine the results which will flow from a prompt

settlement of these claims. A saving of four or five hundred millions of dollars in settling might result in a waste of productive resources of ten times this amount because of idleness. This would be a penny-wise pound-foolish policy.

If the business interests of the country grasp clearly this principle, and if the government gives proper aid by way of statistical information and the formulation of policy, it will aid materially in maintaining the productive level. But the most sanguine of us hardly imagine that it will maintain the flow of products that we witnessed during the war. The best that can be done is to prevent a depression which will carry our productive activity below normal. This normal, as we knew it before the war, will still be far below the maximum that we have recently attained.

It seems that somewhere in the present industrial process there is a factor of retardation which is only occasionally cast out by such a holocaust as war. What is the secret of its casting out, even for the space of three years? If this secret can be discovered, we may indulge the hope of institutionalizing it and adding permanently ten billion dollars to our annual national output. We could then realize the high standard of living of which reformers have dreamed, and could increase our national wealth at a rate equal to that of half of the civilized world outside. The usual view of the matter is that business lags in normal times because of a failure of demand; that during the war there was an extraordinary demand, at first from the European governments and then from our own in addition. It was this additional demand that moved entrepreneurs to produce to full capacity. Now that the war demand has fallen off, it seems to most people obvious that production cannot go on at its former pace. "If it did, where would we find our market?" they ask. The fundamental fallacy lurking in this analysis is obvious. Production creates demand in ordinary times. It is an old maxim of political economy that wants are insatiable. This is still true, even in a country where the average of productive output is as high as our own.

Not more than 10 per cent of the families of the United States have incomes of \$3,000 or more. With such a situation there is still an immense amount of unsatisfied demand which depends for its appearance in the actual market upon nothing more than the opportunity to work and produce. To say that production lags because demand is not forthcoming starts with the assumption that production has already lagged and so has reduced demand. The secret of the thing must be sought elsewhere.

A more fundamental explanation is that low profits, or even ordinary profits, are not sufficient to tempt business men to high

productive activity. Modern business is carried on for profit. When large profits are in prospect, therefore, production goes on at a feverish rate. It is doubtful whether this explanation of the matter is quite adequate. Most business men are perfectly willing to produce for low profits, especially when no opportunity presents itself to make high ones. The fundamental reason why production is retarded when only low profits are in sight is that a situation which yields small profits is one in which the prices of products and the prices of cost goods are close together. The risk that a fall in the former or a rise in the latter shall completely absorb the margin of profit is increased as these two sets of prices approach each other and is lessened as the margin between them widens. If the prices of the labor and material come to exceed the price of the product, the entrepreneur faces loss and ruin. During the last three years prices for products have risen at an enormous rate, and while it was certain that the price of cost goods would rise also, the margin between the two which the entrepreneur foresaw was so great as to minimize his risk. In this situation he was willing to produce to the full capacity of his plant.

The factor that prevents a full realization of our productive capacities is this risk of loss. If it could be minimized or eliminated the nation could have a high level of productive output even with normal profits. It is pertinent, therefore, to inquire into the possibility of decreasing industrial risk through formal organization. Thus far the most successful institution which has been developed for the elimination of individual risk is the institution of insurance. In essence this is a pooling of the particular risk involved. Houses burn; the building of houses would, in the absence of insurance, be a venture fraught with risk, and the supply of houses would therefore be restricted and of poorer quality. But by pooling the risk through fire insurance, one can be relieved of the risk of loss by fire for a small payment. One can then proceed to make his plans for building as though no risk of such loss existed. Cannot a similar principle be applied to the risk of industrial loss with beneficial results? If it were possible to guarantee every entrepreneur at least his operating expenses, including depreciation, the risk of loss could be minimized. This would unquestionably stimulate production.

Such guaranty could be made only by the government, for it only can exercise the taxing power necessary to take from the more fortunate industries those fortuitous profits which are the obverse of the losses incident to the modern industrial process. It would not do away with the right of private property or with individual initiative, nor would it in any wise lessen the incentive to prudence and efficiency. Neither would it induce anyone to put his capital

into an unwise venture. There would still be the same incentive to exercise care in the direction of production, and to attain proficiency in its prosecution, for without these no adequate rate of profit could be realized.

This would not be socialism, because the entire industrial equipment of the country would still remain private property, and the profits of industry would belong to the owner. They would, of course, be subject to taxation, and the tax system would have to be adjusted in such a manner as to take from certain enterprises the amount needed to cover the insured losses arising from the risks of modern business. Production would still be directed by individuals who would decide what should be made and would choose the method of production. The right of private property in the means of production would probably have imposed upon it a new function. If the government assumed part of the risk of industrial loss it would no longer allow an owner to keep plants standing idle when idleness caused unemployment. Any scheme of this sort would involve an examination and approval of the costs of labor and material before insuring them, otherwise the process might easily be open to fraud. But after an experience of the last eighteen months this task certainly is not an impossible one.

133. The Fetish of Reconstruction²⁸

No word is more in vogue just now than "reconstruction." Its popularity is equaled only by the variety of meaning which clothes it. Its use is indicative of a praiseworthy hope of a better society to come out of the war. Its popular appeal is suggestive of the loose and nebulous ideas with which most minds surround it. If we are to find out what "getting out of the war" means, we must inquire as specifically as we can into this popular term, even though we are willing to admit in advance that we can reduce it to specific statement only after a decade has gone by and the fact of accomplishment is at hand to give evidence.

1. In common speech the word "reconstruction" is a shibboleth for the establishment of a new and perfect social order. The mind which coined the word supplied a cosmic term that is almost meaningless. In truth few expressions have given such genuine satisfaction to such an assortment of minds. To the exporter it means foreign markets; to the politician, more offices; to the gild socialist, at least industrial councils; to the single taxer, the single tax; and to social workers, "betterment." The Weeks Bill, robbed by the armistice

²⁸An editorial (1919).

of its chance to provoke senatorial oratory, meant by "reconstruction" what any banker would mean by it. The British Ministry of Reconstruction, in the likeness of which many would have created an American commission, resolved the matter into more than one hundred inquiries, ranging from the constitutionalization of industry to the demobilization of mules. At a minimum it seems to mean the return to ordinary uses of the men and materials displaced by the war. As a maximum it connotes an attempt to take advantage of the general state of flux to arrange elements into a more pleasing social order.

2. The crisis caused by the war makes it necessary to consider at this time a very large number of social problems. These problems are alike old and new. The issues they present are among the most venerable which each age inherits from its predecessor. How can the industrial system be organized to include all of its resources in materials and men? Upon what terms shall capital and labor combine their efforts in supplying society with the comforts and vanities of life? How can each instrument be assured such a return as will enable it fitly to perform its allotted task? What use shall society make of the surplus of wealth which it produces over and above the necessities of its members? Shall it be spent upon education and scientific experimentation, competitive armaments, the maintenance of higher living standards, or the satisfaction of the whims of those who by effort, talent, guile, or accident chance upon it? But such questions are also new. Each of them has its place in the immediate return of a vast, intricate, and delicate industrial system to the service of a people at peace. As the process runs its course each must receive at least a passing solution in terms of immediate readjustments. If times were less stirring and the current of change ran shallow, a reluctant people might let them pass. But the depths have been stirred and the floods are loose. They have become too imperative and too explicit to be denied.

3. These problems cannot be solved, even for the moment, by a return to the pre-war scheme of things. The task ahead is not one of restitution; it cannot be accomplished by reversing the processes which created the machinery of war; it is no matter of formulas and manipulations. The wheels of the draft machinery could not run backward if they would. Old jobs are gone or are held by efficient women who do not wish to be dispossessed. Merchant and manufacturer cannot find his old market. The accommodation of laborers to new working conditions cannot be forgotten. The impress which the war has left upon the minds of the people cannot be ironed out. The depreciation of physical, material, and human resources which has followed in the wake of war cannot be rubbed from the social

balance sheet. Men and machines must be adjusted, not to old, but to new conditions.

4. The problem, therefore, becomes one of the conscious guidance of social and industrial development through a grave crisis. In this crisis the problems which make up the larger whole will have to be taken up specifically. Each of them has a history of its own. Each has associated with it peculiar factors an understanding of which is necessary to its successful handling. Each will demand a share of our attention far in excess of what we can allot to it. Since each of these issues is a mere aspect of an economic problem which has a history back of it and is current in something of an eternal sense, each must be discussed in its own specific place. The bundle of issues dubbed "reconstruction" must be distributed to the established problems to which they belong.

But, in our zeal for such a distribution, we must not forget that while the problems of reconstruction are many, they are yet one. Together they resolve themselves into the larger question of the guidance of social development. The problem is the problem of the decade before the war, of the war, and of many a decade to come. It differs from the older problem only in that the issues are more complex and more imperative. The larger problem and the questions which make it up must receive their tentative answers in terms of the ideals of the society which addresses itself to them. It is the question of ends which make these problems one. In contrast with this larger problem of organizing a nation's energies for peace, the matter of preparation for war is simplicity itself. In war the end to be achieved is simple and definite. A nation has a limited amount of labor, materials, equipment, and other resources. Its task is to divert as large a part as possible into a surplus that can be used to arm, equip, and hurl upon the enemy a force large enough to overcome it. But the end of a reorganization for peace has no such simplicity. It is not to turn out the largest aggregate of goods useful for a single purpose. On the contrary, it is bound up with a clash between the immediate interests of individuals and of groups, between the present and the future interests of these groups, and between the desires of the groups and what is best for society as a whole.

But the importance of the question of ends cannot be escaped. It might be easy to settle the matter by producing the largest aggregate of wealth measured in pecuniary terms or physical output. Unfortunately, however, there are no units for such measurements. Besides the problem involves the kinds of goods produced as well as their quantity; it must attend to the uses to which they are put as well as to their volume; it must keep in view their distribution as

well as their place in the statistics of income. It involves a social accountancy in which human values and costs are assessed and measured. The end of it all may at best be only approximated, but its vague character makes all the more necessary an attempt to come by it intelligently. With it something is at hand to give at least a semblance of unity to a program which otherwise can be nothing more than a jumbled heap of fragments.

VII

THE PROBLEM OF INTERNATIONAL TRADE

Problems come and go, but the tariff seems to be a permanent American institution. In a country where "every man is his own political economist" it possesses a perennial freshness. It has, time and again, been proved guilty at the polls of raising and lowering the standard of living, of increasing and decreasing wages, of creating and destroying monopoly, of abetting and discouraging immigration, of producing crises and causing prosperity. In part this has been due to an easy association of the question with sentiments of nationalism; the absence of grave social problems, such as are found in more mature societies; and the popular idea that it is a simple and manageable piece of mechanism. But, in part at least, its popular hold has been legitimate. It has been intimately associated with the development of the country, and it has served as an instrument for controlling our development.

However particular tariff questions may be stated, the real issue lies in the antithesis between protection and free trade, which are the ends of the tendencies underlying particular programs.

The theory of free trade is "a mere corollary to the principle of the division of labor." Foreign, like domestic, trade, "allows increased specialization," and consequently "increases the aggregate of wealth." A study of the mechanism of exchange shows that "goods are paid for with goods." "Foreign trade fixes its own limits." The tariff, if used, should have as its object the raising of revenue; it should leave "industrial conditions as it finds them." The argument implies a conception of industrial society in static terms, is an aspect of the general theory of *laissez-faire*, and rests upon a belief in the efficacy of price as an organizing force.

The strength of protection lies in a mercantilist spirit as old as society. Tradersmen have always been willing to use agencies of social control to increase their sales. This disposition is revealed in the inhibitions against buying goods out of town, supported by custom or opinion; in the attempts of legislatures to exempt manufacturing establishments from taxation; and in duties placed upon imported goods.

Nevertheless, there is a social theory of protection. It rests upon the concept of a developing society, the necessity of social direction of that development, and the possibility of determining, partially at least, its course by assessing, raising, lowering, and removing duties upon imported goods. It implies a constant adaptation of the "tariff policy" to the changing condition of the country. This theory reveals itself in the arguments that protection can transform an agricultural into an industrial society, develop a nation strong in arms, add industry after industry to the national wealth, and "scatter plenty o'er a smiling land" by piling up huge aggregates of capital.

All of these things, it is asserted, it has accomplished for American society. Unfortunately we have no trustworthy evidence of the rôle it has played in the transformation of our system. The histories of the tariff are largely records of what has happened to it rather than of what it has done. The argument "from experience" has failed to disentangle the influence of the tariff from the vast complex of "forces" which together have made our system what it is. Yet it is quite evident that the tariff has played its part in the creation of our highly pecuniary, industrial, and urban culture. The development of manufacturing and mining, upon which the structure so largely rests, would have come without protection; for our abundant natural resources could not be ignored; but a highly accelerated movement necessitated high prices, increasingly large quantities of cheap labor, and larger and larger aggregates

of capital. Protection promised high prices; the open door to immigration offered cheap labor; either would have sufficed. But to make assurance doubly sure we chose both. Protection, with other agents, has transformed resources into stupendous incomes, out of which large aggregates of capital have been saved and reinvested. Thus it has been an active factor in our "prosperity." It need not be said that, in view of changed conditions, its potency in the past is no guaranty that in future it can play an identical rôle.

But our social scheme has proved too complex for it to accomplish just the industrial effects it was intended to accomplish and no more. With complementary factors, it has induced a gigantic, clumsy, feverish development of manufacturing and mining; it has caused a headlong "lunge" in a particular direction. But it has induced the inevitable attendants of this growth—urban life, city comforts, luxury, slums, poverty, and vice; greater concentration of wealth and more pronounced class differences; a medley of races and a babel of tongues; a clash of political and ethical systems; a vast array of bewildering problems. It has been responsible for development in ethics, politics, and social life, though it has been impotent to direct this development. It has made the attention to these aspects of social life more imperative than ever, though the "prosperity" which it has induced has served to delay our attention to the question of whether the older institutional system is adequate for the newer industrial life. In short, it has induced growth, faster than we have been able or willing to perfect means for controlling that growth. Its results, too, have been accompanied by prodigious waste. That its "good" is so conspicuous is due largely to our enjoyment of gains from the exploitation—the *over*-utilization—of our natural resources and our passing of the costs to succeeding generations.

Aside from the theoretical difficulties, the method of its use prevents protection from being an adequate means of social control. Since a legislative body is depended upon for tariff laws, we may well say, "Protection is all right in theory, but it will not *work* in practice." Did you ever hear of Congress, when considering a tariff bill, giving attention to the "end" to be reached, noting carefully the larger social as well as the purely industrial results of anticipated duties, carefully calculating gains against costs, and on this basis fixing duties for periods just long enough to secure the desired results? Or have you rather noted that, without attention to general principles and the relation of particular duties to these, a tariff bill is evolved through an aggregation of compromises between particular interests?

But the tariff is still our heritage. At present there is some disposition to treat it as a "moral issue" intimately connected with the fact of class and the distribution of income. There is a demand, perhaps waning but still strong, for a "scientific revision." This finds its source, partly in a protest against the way in which Congress draws a tariff bill, and partly in a superstitious reverence for whatever wears the label "scientific." Its weakness is that it fails to see that science can furnish only a mechanism, and that the nature of the tariff depends largely upon the theory underlying legislation. There is a cry for "freer trade" from many men with many minds. Now that the war is over the practical manufacturer who sees in foreign markets the salvation of domestic production, the patriotic American who contemplating our large and newly acquired merchant marine, beholds our industrial future "beyond the seas," and the cosmic idealist who visualizes in the coming league of nations "a world lapt in universal law," unite in a cry for an unhampered trade. Yet, with it all, there still lingers, less vocal than of old, but still loud enough to be heard in legislative halls, the perennial cry for higher duties and more of them.

But, most important of all, there is reason for believing that the limitations of the tariff for good or bad are being more clearly seen, and that in the future it will be supplemented by other and more delicate instruments of control which together can impart to social life a more symmetrical development.

A. THE BASIS OF INTERNATIONAL TRADE**134. International Co-operation¹**

BY CHARLES GIDE

It is strange that the advantages of international trade have been considered from two precisely opposite points of view. The classical economists consider only imports. They regard importation as the object of international trade. Exportation is but a means—the only means—by which a nation can procure the goods it imports. Exports, in other words, are the price paid for imports. The less we give in exchange for what we want—so reason the classical economists—the more profitable is the transaction.

According to the protectionists and current public opinion the advantages of international trade must be considered from the viewpoint of exports. Exports, it is held, constitute the real profits of international trade. Imports are thus regarded only as a necessary evil to which a nation must submit whenever it cannot produce all that it needs; but a nation should strive to reduce its imports to the lowest possible amount. Exportation means increased wealth, the receipt of money in payment for goods sold abroad. Importation, on the other hand, means expense, the payment of money to foreign nations.

Both of these opposite points of view are false. Both are based upon the mistaken assumption that a nation may be regarded in the same light as an individual. A great country cannot be likened to a person carrying on trade solely as a means of procuring what he needs. A nation does not export goods merely to import them, but because exportation furnishes advantages that are peculiar to itself.

Inversely, the second point of view, which likens a great nation to a storekeeper who buys only to sell again, and whose profit consists of the excess of the selling-price over the purchase price, is no less erroneous. What a singular idea it is to measure the benefits of exchange and commerce among nations just as one would measure the profits of merchants. If merchants and traders made no profit at all, exchange would be none the less beneficial; nay, it would even be more beneficial.

The advantages of international trade are not susceptible of arithmetical calculation. They are too complex for such simple methods, and are found on both the side of imports and that of exports.

¹Adapted from *Principles of Political Economy* (2d American ed.), pp. 301-7. Translated by C. William A. Veditz. Copyright by D. C. Heath & Co., 1903.

The following are the advantages of importation :

I. Additional well-being is imparted by the imported goods which a country, because of its resources or climate, could not have produced within its own borders. For example, without international commerce, Holland could have no building stone, Switzerland no coal, England little lumber and no wine, France no copper and the United States no tea or coffee.

II. Economy of labor is realized when wealth is imported that could be produced at home only at a higher cost than abroad. France could make good machinery, but it is more profitable to import it from the United States, which is better provided with coal, iron and facilities for manufacturing. To realize this advantage it is not necessary that the importing nation be inferior in the production of the good it receives from abroad. It may be to its advantage to import goods which it might produce under even more favorable conditions than the country which sends them. Cuba, for example, might be able to produce wheat more advantageously than the United States, but also to produce sugar even more advantageously. In this case it will be more profitable for Cuba to raise sugar and import wheat, despite her advantage over the United States in the production of wheat ; for thus she can purchase through sugar what otherwise would have cost her more labor to produce. Thus it may happen that a country in all points superior to its neighbor will find it profitable to import goods from them.

An allied advantage is that whenever an accident of any sort unexpectedly reduces the productivity of one country, it may depend upon others to remedy this accident, which, in the absence of international commerce, might have disastrous consequences. Thus international commerce provides a kind of insurance against famines and against the severe stress of national panics and depressions.

Although a nation could perhaps produce a sufficient quantity of many commodities which at present it imports, the quantity at home could be increased only at a very great cost in labor and capital and a consequent increase in prices. The United States, for example, imports a large quantity of lead. If imports were cut off, it would be necessary to work poorer mines, and incur the necessarily greater costs, which, in higher prices, will obviously fall upon the consumers of lead.

As for exportation, the following are its advantages :

I. It utilizes natural resources and productive forces which, if there were no foreign outlet, would be superabundant, and therefore partially useless. Were it not for exportation, Peru would not know what to do with her nitrates, Australia with her wool, Spain

with her wines, Pennsylvania with her iron and steel, nor the South with its cotton.

II. It develops a nation's industry. It is well known that the extent of the division of labor and the progress of large-scale production are proportionate to the size of the market. Division of labor cannot be at all detailed when the market is small, whereas with every extension of the market a more elaborate division of labor and the introduction of more expensive but in the long run more productive processes and machinery becomes possible. International trade, by creating world-wide markets for goods, tends to develop the division of labor; it leads to a fuller utilization of the possibilities of the soil and the population, to a completer development of acquired aptitudes, and hence to a great increase of the productive energy of humanity. England could never have become the great manufacturing nation it now is, did it not export to all parts of the world. The possession of an extensive market made it possible for her to make immediate and profitable use of the latest inventions and improvements in manufacturing.

135. The Law of Comparative Costs²

BY FRED M. TAYLOR

Here is a lawyer who very likely can mow his lawn, cultivate his garden, and take care of his furnace much better than the persons whom he hires to do these things. But what he does is to devote himself to his profession, and buy the services named from other people; and of course he acts wisely in so doing. It is clear that he gains most by devoting himself to the thing for which he is best fitted. He is not interested in the fitness or unfitness of his neighbor as compared with himself, but rather in the superiority of his own fitness in one line as compared with his fitness in another line. So long as he can find a market for his output, it is better for him to devote his time to doing the things for which he is pre-eminently fitted, and get his supplies of other things from his neighbors, even though he can make those other things better than they.

It is evident that in this respect the case of the community or the nation is like that of the individual. The upper peninsula of Michigan produces little but copper and iron, getting most other goods through exchange with other communities. Yet it would be easy to prove that this section is really better fitted to produce some of the things which it buys than the sections from which it buys them. The explanation

²Adapted from *Principles of Economics* (2d ed.), pp. 75-77. Copyright by the author. Published by the University of Michigan, 1913.

is to be found in what has long been known as the law of comparative costs. It may be stated as follows:

Ignoring cost of transportation, two communities find it profitable to specialize respectively in the production of two commodities and to exchange those commodities each for the other, provided the comparative real costs of the two commodities in one community are different from their comparative real costs in the other community.

Let us illustrate. Letting labor represent all real costs, suppose that in England the cost of a ton of iron is 25 days' labor and the cost of a yard of broadcloth is 5 days' labor; while in America the cost of iron is 16 days' labor and that of broadcloth 4 days' labor. These costs may be expressed in the following proportions:

Eng. cost iron : Eng. cost cloth :: 25 : 5
Amer. cost iron : Amer. cost cloth :: 16 : 4

Since in England a ton of iron costs five times as much as a yard of cloth, it will naturally tend to be worth the same as five yards of cloth; under which conditions England can afford to give iron for cloth if, and only if, she can get more than five yards per ton; or trade cloth for iron if, and only if, she can get it with less than five yards per ton. In America, on the other hand, a ton of iron tends to be worth four yards of cloth; under which conditions America can afford to trade iron for cloth if, and only if, she can get more than four yards per ton; or to trade cloth for iron if, and only if, she can get it with less than four yards. But the first hypothesis for England and the second for America are plainly shut out. England cannot get more than five yards of cloth for iron, since in America it is worth only four yards. So America cannot buy with less than four yards of cloth since it is worth five yards in England. On the other hand, the second hypothesis for England and the first for America fit each other perfectly. England can get iron for less than five yards, since it is worth only four in America; and America can sell iron for more than four yards of cloth, since it is worth five in England. Accordingly, under the conditions supposed, an exchange of English cloth for American iron would be profitable.

It goes without saying that if one nation is absolutely inferior to its neighbor in respect to the production of one commodity and absolutely superior in respect to the production of another, then, obviously, the comparative costs of these commodities in one country are different from their comparative costs in the other, and so exchanging them will pay.

But, as the argument above has shown, it is equally clear that if a nation is absolutely superior to another in the production of each

of two commodities, it will produce the one in which its superiority is the greater, and will import the latter. Likewise, if a nation is inferior to its neighbor in each of two commodities, it will produce the one in which its inferiority is less, and import the other.

136. The Theory of Free Trade^a

The theory of free trade is nothing else than a deduction from the advantages of foreign trade, or rather, of trade. The industrial policy of a people is concerned, not with the welfare of classes or the productive profits of particular individuals, but with securing for the people as a whole from the limited social resources at their command the largest amount of material wealth. This involves a problem of economic organization. This problem can be solved in two ways, logically antithetical, as well as in innumerable intermediate ways which combine the two primary solutions.

The one is the resolution of the economic world into a large number of infinitely small districts. In each district there is a body of people, a fund of accumulated capital, and land possessed of definite productive powers. The people, capital, and products of each district are to be kept clearly within the confines of the district. Commercial intercourse and personal movement from district to district are to be prohibited. Thus each district is called upon to solve its own problem in economic organization. It must directly satisfy the wants of its own people; to that end it is compelled to make the best possible accommodation of its labor and capital to its natural resources. It need not be said that under such a system of small self-sufficient units, few wants could be satisfied; little capital could be accumulated; the advantages of specialization would be lost; little natural skill could be developed; and only limited potentialities of the natural resources could be utilized.

The alternative is the treatment of the economic world as a single industrial unit. Population and capital are to be allowed freely to move wherever they please; there is to be no barrier to the free exchange of goods. The problem of economic organization is to be worked out for the economic world as a single entity. Under freedom from interference, population and capital will gravitate towards those places where they can get the largest returns, or where they can best utilize nature's contributions. Where they go, industries will be established. The goods produced will not have to be consumed in the region in which they are produced; they will likewise naturally seek the places where they can command the highest prices. Under this

^aAn editorial (1915).

system the people of any territory do not seek directly to supply all their own wants. They produce surpluses of the goods in the making of which natural resources or acquired skill make them pre-eminently fit, and exchange them for similar surpluses produced by their neighbors, far or near. Such an economic organization is nothing else than a territorial division of labor. It makes industry more efficient through the better utilization of natural resources, through the development of specialized skill, and through the larger volume of capital accumulated out of the larger earnings. The expenses of trade are a tax upon this system; but the exchange which trade makes possible pays at least its own expenses. If it failed to do so, it could not be carried on. In the majority of cases it yields, in addition, a surplus to both parties.

Neither of these alternatives can be perfectly realized. The former cannot be, because it is practically impossible to find a unit of territory logically small enough. The latter cannot be, because of the expenses of transportation. The cost entailed by distance will always involve the element of a scattering over wide territories of the establishments producing many separate goods. It will permit only a few localized industries to satisfy world-wide demands. But distance is to be looked upon, not as a friend, but an enemy, to material progress. Every invention in transportation which reduces the costs of carriage is to be regarded as a means to greater social economy, and as an effective device for extending still further the market, specializing more narrowly in production, and swelling the volume of material goods. On the contrary, everything which increases costs must be looked upon as a device tending to break society up into smaller groups, decrease the area of the market, and reduce the amount of material wealth. Protection is a system of taxes the object of which is to cause industrial society to be organized in a smaller group than otherwise it would be. It is nothing else than an increase in the costs of carrying goods from place to place. Consequently its interference with the establishment of a natural economic organization prevents the fullest utilization of limited social resources and leads to the production of a smaller volume of goods than would be attained through free trade.

The theory of free trade is premised upon the proposition that a trade yields an advantage, not to one, but to both parties to the transaction. Since society is an aggregate of individuals, trade in aggregate yields a corresponding advantage. Political lines are artificially drawn. Their presence cannot affect either the nature or the advantages of trade. Therefore the way to fullest national prosperity, not for particular individuals or industries, but for society as a whole, is through the policy of untrammelled commerce.

137. The Favorable Balance of Trade

BY THOMAS MUN⁴

Although a kingdom may be enriched by gifts received, or by purchases taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by *Foreign Trade*, wherein wee must ever observe this rule; to sell more to strangers yearly than wee consume of theirs in value. For suppose that when this Kingdom is plentifully served with the Cloth, Lead, Tinn, Iron, Fish, and other native commodities, we doe yearly export the over-plus to foreign Countries to the value of twenty-two hundred thousand pounds by which means we are able beyond the Seas to buy and bring in foreign wares for our use and Consumptions to the value of twenty hundred thousand pounds: By this order duly kept in our trading, we may rest assured that the Kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much Treasure; because that part of our stock which is not returned to us in wares must necessarily be brought home in treasure.

For in this case it cometh to pass in the stock of a Kingdom, as in the estate of a private man; who is supposed to have one thousand pounds yearly revenue and two thousand pounds ready money in his Chest: If such a man through excess shall spend one thousand five hundred pounds per annum, all his ready money will be gone in four years; and in like time his said money will be doubled if he take a Frugal course to spend but five hundred pounds per annum, which rule never faileth likewise in the Commonwealth.

BY CHARLES W. FAIRBANKS⁵

The history of our foreign trade during the sixteen years following the Cleveland administration shows that our commerce continually expanded under the protective policy. One of the fine things about it was that our exports far exceeded our imports; that is to say, we sold abroad more than we bought abroad, and as a result there was a substantial trade balance in our favor. The excess of our domestic exports over imports in the sixteen years ending March 1, 1913, was \$7,348,942,251. The magnitude of this addition to our national wealth may be more fully realized when we reflect that the total net balance to our credit upon our foreign commerce from

⁴Adapted from *England's Treasure by Foreign Trade, or The Balance of Our Foreign Trade Is the Rule of Our Treasure* (1664), chap. ii.

⁵Adapted from an address entitled "Let Us Now Unite in the Old Faith," delivered before the Indiana Republican State Convention at Indianapolis, April 23, 1914.

George Washington's first term to William McKinley's first term was less than \$400,000,000.

Our free-trade friends seem to ignore the wisdom of keeping our money at home so far as we reasonably can by buying at home. Whether we send abroad a hundred millions of dollars more or less to pay for commodities produced by foreign labor is a matter of slight importance to them. We who hold to the protective system conceive it to be sound policy to patronize our home producers where possible, and keep the money in our own midst. If it goes abroad, it is, of course, withdrawn from our pockets, but if it remains at home it goes into the circulation of our own trade and our countrymen—laborers and farmers, merchants and manufacturers—have a chance to get it sooner or later.

138. The Mystery of the Balance of Trade⁶

BY HARTLEY WITHERS

The statistics published by our Board of Trade show that for 1912, which is a typical year, our net imports, including bullion, amounted to £702,000,000, while our exports, including bullion, reached only £552,000,000. This gives a net excess of imports over exports, including gold shipped both ways, of approximately £150,000,000.

Now this huge excess of imports, which is much bigger in the case of England than in that of any other country, is often very terrifying to people who have not thought much about the subject. It is commonly called an adverse balance of trade, a phrase which has an uncomfortable sound, as if there was something chronically rotten in the state of our commerce, and it is sometimes used as a proof that other countries are continually pouring goods in to us and taking nothing from us in return, and that this is a state of things which ought immediately to be stopped in the interests of the national welfare. If this were true, it would seem, on consideration, to be rather a comfortable state of affairs. Any individual who could arrange his commercial relations with his fellows on these lines would be likely to wax very fat. To be always consuming more than he produced is just the sort of life that would have been thoroughly agreeable to the economic man. With a nation, likewise, it would seem to tend to the enjoyment of plenty with little effort.

But, in fact, these things do not happen. The other countries of the world have not conspired together to kill England with kindness

⁶Adapted from *Money-Changing: An Introduction to Foreign Exchange*, pp. 51-63, 78-82. Copyright by E. P. Dutton & Co. and Smith, Elder & Co., 1913.

and give us £150,000,000 worth of goods every year for nothing. Goods are never sent anywhere unless there is a reasonable certainty that the country to which they are sent will be able to pay for them. The foreign seller of goods expects to be paid in money of his own country by selling his claim through the machinery of exchange. But if the importing country were always buying more than it sold, the supply of claims on it would be continually greater than the demand for them and the exchanges would be steadily going against it, and it would either have to export gold or export promises to pay as long as it could finance itself on Mr. Micawber's principles.

Now it is certain that we are not exporting gold. Year in and year out we import more gold than we export. It is also certain that we are not on balance exporting promises to pay, either our own or other people's. If we were doing the former, we should be raising loans abroad or exporting or selling our securities abroad, neither of which things we are doing. If we were exporting other people's promises to pay, it would mean that we were selling to foreigners out of our holdings of foreign securities. But this is not happening to any great extent. Nor do rates of exchange move steadily against us, as they must if we were really leading the profligate life of commercial dissipation that a glance at the figures might lead the unwary to infer.

It is thus clear that the big gap between our recorded exports and imports of goods is filled by unrecorded, and so usually called "invisible," exports of various kinds of services, and that there is no need to be frightened about it. England does about one-half of the carrying trade of the world. It is quite evident that these carrying services do not themselves pass through custom-houses, and hence are "invisible." And it is evident that a large part of our surplus of imports consists of payments for these services which we are performing for foreigners.

In addition to this there is an equally elusive factor in the shape of the import and export of securities and interest on capital. Almost every country in the world is a lender or a borrower. The borrower exports securities, or promises to pay, and takes in return the goods or services it requires. Later on, when interest payments fall due, the lender has coupons to export, and the borrower has to ship goods to meet them. When Russia raises a loan in France it exports its bonds or promises to pay, and sells them to thrifty French investors. Thereafter French investors export coupons every half-year to Russia, representing claims of interest due. Thus the exportation of securities and the subsequent exportation of coupons by the lender both tend to produce the same result, a balance of visible imports.

Consequently we find that this adverse balance—or excess of visible imports—is a feature in the trade figures, both of the young and go-ahead countries that are habitual borrowers and are always exporting securities, and of the old established nations that have plenty of accumulated capital to spare and have placed blocks of it abroad, and so always have plenty of coupons to export. In both of these cases there is an invisible export, in one case of securities, in the other of coupons, which usually has to be met by visible imports of goods, which thus create a so-called adverse trade balance. The so-called favorable trade balance, under which a country shows more goods going out than coming in, is chiefly shown by those nations which have reached the stage of being in a position to pay interest on borrowed capital out of their own productions, without having to borrow more from their creditors in order to meet interest. The United States is typical of the last class, Canada and England of the first. The actual import of securities, then, should tend to produce an excess of exports, and an export of coupons to secure a surplus of imports.

But there are other invisible items that get into the total. Every American who goes forth with his Baedeker to widen his mental horizon in England brings with him a supply of notes. These have been bought for gold in New York, and consist of claims on London merchants created by the importation of American goods. Consequently his notes pay for the beefsteaks which he, an American, consumes under English skies, and for the invisible culture which he takes back to his native land. The goods which he consumes in England are properly to be regarded as English exports.

Another streamlet which sometimes swells into a respectable torrent is made by the many drops poured in by poor immigrants into new countries, who send home to their kinsmen such small sums as they can spare. In this respect Italy is believed to score heavily. The Italians seem to take with them the home-grown power of living largely on sunshine and good humor, and the sums they send home are an important cause of the power shown by Italy to maintain a so-called adverse trade balance, without the assistance of investments abroad or the profits of a big carrying trade. Ireland is another country that takes toll of the rest of the world through the filial piety of her sons who have gone abroad to seek their fortunes in lands where thews and sinews find a better market than at home.

Another class of emigrant in another way helps the older countries by causing a drain on the country of its origin. This class is formed by the wealthy American heiresses who find English and European husbands and draw year by year large sums from the United States in the shape of dowries, so that this item in the trade

balance is usually called the "dowry drain." In this case Europe and England can balance against the excess of imports the exportation of conjugal affection and social prestige.

The presence of these items, which escape customs statistics, shows that after all our exports and our imports balance each other, and that there is no real balance of trade.

B. THE PERENNIAL ARGUMENT FOR RESTRICTION

139. Keeping Trade at Home⁷

"A dollar spent in Auburn gives you another chance at it; but, if it is spent out of town, it's 'Good-bye Mary.'"

"Down with the parcels post. No more diabolical device was ever perfected by the big cities for stripping the small towns and country districts of all their surplus cash. Let the rich mail-order houses wax fat with the dollars that are the property of local merchants."

"Everything bought from the city takes just so much money out of town."

"The summer boarders are a great blessing to our little village; they put into circulation a lot of money which means at least temporary prosperity."

"If I were mayor, and had my way, I would place a fine of one hundred dollars on every man who ordered goods from a mail-order house."

"The individual can get rich only by selling more than he buys. Likewise a community can prosper only by selling to other communities more than it buys from them."

"Brethren, let me call your attention to the fact that Brother Hiram Johnson, who, this week, is opening a new grocery store on Main Street, is a member of this church. If you patronize him, you will not only contribute to the prosperity of an excellent grocer, but you will be helping a fellow Christian and Methodist."

"The European war will in a way, too often overlooked, contribute vastly to the prosperity of the Pacific Coast. Americans annually have been spending more than \$200,000,000 in foreign travel. No sane man can for a moment doubt that practically every dollar of this is lost to the home circulation. Now it will be spent in travel to the Pacific Coast. California will get the largest share of it. This

⁷ It seems unnecessary to give a specific reference to the source of each of the excerpts given below. The reader by a little attention to local papers can easily duplicate it. The editor is indebted to Taylor, *Principles of Economics*, for several of these excerpts.

money will spell prosperity for every one of the state's industries. But, we must remember the duty we owe our state. We can profit by this increase in wealth only if we keep clearly in mind the precept that it must be spent for things produced at home. Let us see to it that the dollars thus given us do not find their way out of the state."

"When I came to Marblehead they had their houses built by country workmen and their clothes made out of town, and supplied themselves with beef and pork from Boston, which drained the town of its money."

"The annual influx of students and other outsiders into our fruit belt to engage in fruit-picking and packing is an abuse that should be stopped at once. These people consume very little, saving their money to take back to Ann Arbor, Madison, Champaign, and other places from which they come. Thus, while making large sums off us, they give little or nothing in support of our industries."

"The county commissioners should be promptly impeached and removed from office for their action of last Monday. We understand that the contract for the building of the new courthouse was let to the Knoxville firm only because their bid was \$1,800 under that of our fellow-citizen James R. Robertson. Robertson, as we are all aware, is an expert at this line of work, and was well equipped to do a handsome job. The only excuse which the commissioners give is the \$1,800. But, against this must be set down the \$32,000 which will be paid to the Knoxville gang. Think of it! Sending \$32,000 out of town to save a paltry \$1,800."

"The *Gazette* has always been outspoken in favor of education. Our stand in favor of university, college, and school cannot be questioned. We do not wish to question the wisdom of our fellow-citizens who are sending their children away to school. But we do wish to remind them of a duty which they owe it to the town not to neglect. They should see to it that their sons and daughters are supplied with clothes and all other necessary articles before they leave home for their schools. Our citizens owe nothing to the merchants of the communities in which these colleges are located. But they do owe a debt to the town which gives them homes. And they should see to it that the money spent for necessary articles is kept here as far as possible."

"'Now look here, Doc,' said the dollar to the dentist, 'if you'll only let me stay in this town, and won't send me to Roars, Sawbuck & Co.'s in Chicago for that shaving mug, I'll circulate around and do you a lot of good. You buy a big beefsteak with me, and the butcher will buy groceries, and the grocer will buy dry goods, and the dry goods merchant will pay his doctor's bill with me, and the

doctor will give me to the farmer for oats with which to feed his horse, and the farmer will buy fresh beef from the butcher, and the butcher will come around to you and get his tooth mended. In the long run you see I will be more useful to you here at home than if you send me away forever.”

“The recent cold spell, which caused a large number of water pipes to burst, has been a bonanza for business. Few things in the last year have caused so many people to dig down into their jeans and cough up the cartwheels that spell prosperity.”

140. Gold and Wealth*

BY MARTIN LUTHER

Gold has brought us Germans to that pitch that we must needs scatter our gold and silver in foreign lands, and make all the world rich and ourselves remain beggars. England should indeed have less gold, if Germany left her her cloth; and the king of Portugal also would have less if we left him his spices. Reckon thou how much money is taken out of German land without need or cause in one Frankfort fair, then wilt thou wonder how it comes that there is a penny left in Germany. Frankfort is the silver-and-gold hole through which everything which sprouts and grows among us, or is coined and stamped, runs out of German lands. If this hole were stopped, we would perchance not hear the complaint how on all hands there is naught but debts and no money, and all provinces and cities are burdened and exhausted by interest-paying.

141. The Production of Prosperity*

BY DANIEL DEFOE

Trade encourages manufacture, prompts invention, employs people; increases labor, and pays wages: As the people are employed, they are paid, and by that pay are fed, clothed, kept in heart, and kept together; that is, kept at home, kept from wandering in foreign countries to seek business, for where the employment is, the people will be.

This keeping the people together is indeed the sum of the whole matter, for as they are kept together, they multiply together; and

*Adapted from the address on “Trade and Usury,” *Open Court*, XI (1524), 18. Translated by W. H. Carruth. Copyright.

*Adapted from *A Plan of the English Commerce* (1730), pp. 8-10, 33-34, in *A Select Collection of Scarce and Valuable Tracts on Commerce*, edited by J. R. McCulloch.

the numbers, which by the way are the wealth and strength of the nation, increase.

As the numbers of the people increase, the consumption of provisions increases; as the consumption increases, the rate of value will rise at market; and as the rate of provisions rises, the rents of land rise: So the gentlemen are with the first to feel the benefit of trade, by the addition to their estates.

As the consumption of provisions increases, more lands are cultivated; waste grounds are inclosed, woods are grubbed up, forests and common lands are tilled, and improved; by this more farmers are brought together, more farmhouses and cottages are built, and more trades are called upon to supply the necessary demands of husbandry. In a word, as land is employed, the people increase, of course, and thus trade sets all the wheels of improvement in motion; for from the original of business to this day it appears, that the prosperity of a nation rises and falls, just as trade is supported or becomes decayed.

As trade prospers, manufactures increase; as the demand is greater or smaller, so also is the quantity made; and so the wages of the poor, the rate of provisions, and the rents and value of the lands rise or fall, as I said before. And here the very power and strength of the nation is concerned also, for as the value of the lands rises or falls, the taxes rise and fall in proportion.

Trade furnishes money, money pays taxes, and taxes raise armies; and so it may truly be said of trade, that it makes princes powerful, nations valiant, and the most effeminate people that cannot fight for themselves, if they have but money, and can hire other people to fight for them, become as formidable as any of their neighbors.

Seeing trade then is the fund of wealth and power, we cannot wonder that we see the wisest princes and states anxious and concerned for the increase of the commerce and trade of their subjects, and of the growth of the country, anxious to propagate the sale of such goods as are the manufacture of their own people; especially such as keep the money of their dominions at home, and on the contrary, for prohibiting the exportation from abroad, of such things as are the products of other countries, and of the labor of other people, as which carry money back in return.

Nor can we wonder that we see such princes and states endeavoring to set up such manufactures in their own countries, which they see are successfully and profitably carried on by their neighbors, and to endeavor to procure the materials for setting up those manufactures by all just and profitable methods from other countries.

142. The Ten Commandments of National Commerce¹⁰

1. Never lose sight of the interests of your compatriots or of the fatherland.
2. Do not forget that when you buy a foreign product, no matter if it is only a cent's worth, you diminish the fatherland's wealth by so much.
3. Your money should profit only German merchants and workmen.
4. Do not profane German soil, a German house, or a German workshop by using foreign machines and tools.
5. Never allow to be served at your table foreign fruits and meat, thus wronging German growers, and, moreover, compromising your health because foreign meats are not inspected by German sanitary police.
6. Write on German paper with a German pen and dry the ink with German blotters.
7. You should be clothed only with German goods and should wear only German hats.
8. German flour, German fruits, and German beer alone make German strength.
9. If you do not like the German malted coffee, drink coffee from the German colonies. If you prefer chocolates or cocoa for the children, have a care that the chocolate and cocoa are of exclusively German production.
10. Do not let foreign boasters divert you from these sage precepts. Be convinced, whatever you may hear, that the best products, which are alone worthy of a German citizen, are German products.

143. The Test of Faith¹¹

BY ROSWELL A. BENEDICT

Q. What is Protection?

A. It is a principle. It holds that home producers alone make, and therefore alone own, the home market.

Q. What is Free Trade?

A. Also a principle. It holds that producers abroad should be allowed to compete for the home market.

Q. Who are the Protectionists?

A. Home producers standing by their title to the home market.

¹⁰Adapted from a circular widely circulated in Germany in 1910.

¹¹Adapted from "A Tariff Catechism," *American Economist*, III (1914), 62.

Q. Who are the Free Traders?

A. Importers and their pals stealing the home market from its lawful owners.

Q. Wherein does the work of the Protectionists and the Free Traders differ?

A. The Protectionists make and defend while the Free Traders attack and destroy home civilization:

Q. How do Free Traders destroy home civilization?

A. They destroy home production which employs the people, and so substitute violence for industry as a breadwinning craft.

Q. After all, are not those who pass Free Trade laws merely scholars, high minded and pure, moved solely by pride in the common weal?

A. No. It is not pride but price that moves them to sell the home market to the Market Robber. Under whatever color or cover, it is still the Market Robber's silver paid to these, our Judases, by which we are betrayed.

Q. Who is the Market Robber?

A. The importer who robs it of its power to employ home producers in the market made and owned by them.

Q. What is the secret of the Market Robber's power?

A. Market-robbing booty. His competitor, the home producer, is lucky to get 6 per cent a year from his mine, forest, farm, factory, or fishery, while the Market Robber's booty may be 100 per cent, big enough to bribe his way into any market.

Q. Why did the Market Robber fight so hard to break into our market?

A. To steal billions in wages from our home laborers.

144. The Seen and the Unseen¹²

BY FREDERIC BASTIAT

Have you ever had occasion to witness the fury of the honest burgess, Jacques Bonhomme, when his scapegrace son has broken a pane of glass? If you have, you cannot fail to have observed that all the bystanders, were there thirty of them, lay their heads together to offer the unfortunate proprietor this never-failing consolation, that there is good in every misfortune, and that such accidents give a fillip to trade. Everybody must live. If no windows were broken, what would become of the glaziers? Now, this formula of condo-

¹²Adapted from the essay *The Seen and the Unseen*, quoted in Walker, *Political Economy* (1850), pp. 321-23.

lence contains a theory which it is proper to lay hold of in this very simple case, because it is exactly the same theory which unfortunately governs the greater part of our economic institutions.

Assuming that it becomes necessary to expend six francs in repairing the damage, if you mean to say that the accident brings in six francs to the glazier, and to that extent encourages his trade, I grant it fairly and frankly, and admit that you reason justly.

The glazier arrives, does his work, pockets the money, rubs his hands, and blesses the scapegrace son. *That is what we see.*

But, if by way of deduction, you come to conclude, as is too often done, that it is a good thing to break windows—that it makes money circulate—and that encouragement to trade in general is the result, I am obliged to cry, Halt! Your theory stops at what you see, and *takes no account of what we don't see.*

We don't see that since our burgess has been obliged to spend his six francs on one thing, he can no longer spend them on another.

We don't see that if he had not this pane to replace, he would have replaced, for example, his shoes, which are down at the heels; or have placed a new book on his shelf. In short, he would have employed his six francs in a way in which he cannot now employ them. Let us see, then, how the account stands with trade in general. The pane being broken, the glazier's trade is benefited to the extent of six francs. *That is what we see.*

If the pane had not been broken, the shoemaker's or some other trade would have been encouraged to the same extent of six francs. *This is what we don't see.* And if we take into account what we don't see, which is a negative fact, as well as what we do see, which is a positive fact, we shall discover that trade in general, or the aggregate of national industry, has no interest, one way or another, whether windows are broken or not.

Let us see again how the account stands with Jacques Bonhomme. On the last hypothesis, that of the pane being broken, he spends six francs, and gets neither more nor less than he had before, namely, the use of a pane of glass. On the other hypothesis, namely, that the accident had not happened, he would have expended six francs on shoes, and would have had the enjoyment both of the shoes and the pane of glass.

Now, as the good burgess, Jacques Bonhomme, constitutes a fraction of society at large, we are forced to conclude that society, taken in the aggregate, and after all accounts of labor and enjoyment have been squared, has lost the value of the pane of glass which has been broken.

C. THE CARE FOR PROTECTION

145. America's Allegiance to Protection¹³

BY ALBERT J. LEFFINGWELL

I intend to state a few propositions, which, as generally accepted facts, appear to me to influence very largely the national acquiescence of America in the protective policy. Perhaps they may be heard with more patience from one who has never had the slightest connection with the manufacturing interest; who ought apparently to clamor for the cheapest market, but who is nevertheless, for the following reasons, a firm adherent to the protective system:

1. No country of modern times, which is without manufactures, which exports raw products for foreign-made goods, and the inhabitants of which are almost wholly engaged in cultivating the soil, has succeeded in obtaining wealth, prosperity, and power as a nation. This simple fact is recognized by every civilized government in the world. Free trade at the present day is either an English or a barbarous practice. Even English colonies perceive that they must build up their home industries if they are ever to gain essential prosperity. Just so far as free trade contributes to the supremacy of British manufactures, it is a means towards the maintenance of national wealth and power. If it shall ever cease to do this, it will be abandoned.

2. If, during the past fifty years, America had permitted a system of unrestricted trade with all the world, she could never have reached the development of her manufactures which has rendered her independent; but would, today, be little more than a huge agricultural colony, exchanging the produce of her fields for the manufactures and fabrics of Europe. To be a nation of farmers, to excel in sheep-raising and in agriculture—this is the English ideal of what America ought to content herself with being. If there existed between the United States and England a perfectly free and open trade, a distribution of industry unfettered by tariffs, England would be the manufacturing member, and the United States the agricultural member of the partnership.

3. Under the system of protection America has been able to develop her boundless mineral resources, to encourage the growth of her manufacturing industries, until, today, she is not merely independent and able to supply her own wants, but she exports to foreign nations, and has begun to compete with England for the mar-

¹³Adapted from an article in the *London Contemporary Review*, XXXVIII (1880), 56-68.

kets of the world. Conclusive evidence of this exists on all sides. The careful observer can not escape it.

4. A protective tariff has been the most important, and, indeed, the essential agent, in the development of the manufacturing industries of the United States. This proposition can hardly be seriously denied at the present time. Through the enhanced prices paid at first by consumers, manufactures have been created and fostered. Perhaps for a while they have been very costly to the nation. But of the result the country can well be proud. It has made them independent of other nations for their supplies. And, in the end, with growth and improvements, goods have fallen in price, greatly to the benefit of the American consumer.

5. The working class in the United States, under a system of protection, enjoy a greater degree of prosperity than the working classes of England under a system of free trade. No test can be more satisfactory and practical than to compare the position of the laborer in one country with his position in another; and, however difficult it may seem at first thought to weigh in the balances privilege, opportunity, comfort, and general prosperity, certain financial facts and statistics afford us a tolerably safe method for arriving at sound conclusions. That the working man here, if thrifty, has a far better chance for improving his condition, for educating his family, for acquiring landed property than is the case with his brother in Europe is generally admitted. It could not well be otherwise where one may so easily exchange the forge or loom for the settler's cabin and the plow. The great mass of the American working people are better housed, better fed, better clothed, and in all respects better situated than the working millions of the nations whose ports are open to the world.

These are some of the reasons which appear to me to largely determine the persistent allegiance to the doctrine of Protection by the people of the United States. Of the ultimate adoption by nations of the principles of absolute free trade I have as little doubt as the most sanguine disciple of Adam Smith. But it is a dream of the far-distant future. It assuredly cannot be realized while the tramp of armies is louder than the din of the workshop. By America, however, the day of its adoption may be much nearer our own time. History often repeats itself. Like England, by thorough protection of our growing industries, we have laid the foundations of success in every branch of manufacture. So soon as our preëminence is absolutely assured, there will exist no longer the necessity to protect. Of that future we have apparently every reason to hope. When the production of American skill and industry is found in

shops in Europe cheaper than their home-made wares, it is probable that we shall then take our turn in eulogizing free trade, in opening our ports to all nations, and in preaching the blessings of unrestricted trade to a reluctant and still doubting world.

146. Protection and the Formation of Capital¹⁴

BY ALVIN S. JOHNSON

The additions to the capital of a nation must come from the annual income. That the income of a nation will, at any given time, attain its maximum under freedom of trade is a proposition that admits of only rare exceptions. Does it not then follow that the capacity of a nation to accumulate capital will be greater under free trade than under protection? If all classes in society saved equal proportions of their incomes, it would follow of necessity that whatever tends to reduce the national income must reduce the annual addition to the fund of capital. But, in fact, the disposition to accumulate capital varies widely in the different classes that compose a nation; and it is the essence of protection to alter the proportions in which the social income is distributed. We cannot, therefore, accept without further examination the view that protection and the consequent reduction of the social income must necessarily retard the accumulation of capital.

Apart from purely individual differences in thrift, the tendency to save is affected by general economic and social conditions that enable us to divide the members of society into more or less distinct thrift classes. A man is not likely to save, if he knows of no investment attractive to him; he is not very likely to save if the road to the esteem of his fellows lies through expenditures for consumption.

The most attractive form of investment is the acquisition of tangible capital goods to be employed under one's own control. Such an investment gives visible evidences of economic efficiency. Accordingly those who are in a position to make such investments have the strongest incentive to save. These persons are entrepreneurs who have not yet fully equipped their businesses with capital. Then we may place in our highest thrift class. We may assign to a lower thrift class those who live upon salaries or returns from professional service. They have no ever-present means of investment; they are under the domination of rigid standards of consumption. They must, however, make provision for disability or superannuation. In a yet lower class I should place those who derive their incomes

¹⁴Adapted from an article in the *Political Science Quarterly*, XXIII, 221-41. Copyright, 1908.

from rents, interest on mortgages and bonds, dividends on stocks,—the funded income class. They are in no peculiarly favorable situation to make new investments; they are subject to rigid standards of consumption; and they are under no compulsion to set aside a portion of their incomes for future needs. In the lowest class of all I place the great mass of workingmen, since they have the least favorable opportunity for investment and are subject to the most tyrannical standards of consumption.

When an industry reaches the acme of development, the position of the independent entrepreneur becomes assimilated to that of the recipient of funded income. Accordingly we are justified in drawing a distinction between the entrepreneur engaged in an industry which quickly attains its full development and those engaged in an industry of practically unlimited development. Thus we arrive at the conclusion that the richest and most enduring sources of new capital are the interest and profits of the manufacturing entrepreneur class.

A practical tariff system cannot bestow all its benefits upon a higher thrift class and impose all its burdens upon a lower one. Nevertheless it can hardly be denied that the chief benefits of modern protectionism have been bestowed upon those engaged in capitalistic enterprise. In the United States protection, down to the present day, has meant little but the diversion of income from all other classes in society to the capitalist manufacturer. The farmer and wage-earner have carried a net burden; the manufacturer alone has secured a net gain. Here a rapidly developing agriculture has been taxed for the benefit of rapidly developing manufactures. Although under these conditions a high thrift class has been taxed, agriculture would quickly have attained a state of full development, and thus would have ceased to give large incentive to thrift. The impetus given to manufactures, which under modern conditions possess almost unlimited power of absorbing capital, must, of itself, have accelerated accumulation. It is worth noting that in the long run protection in a democratic state must favor the higher thrift classes at the expense of the lower. In every state protection is essentially a minority interest. The export industries can gain nothing from the policy; industries that supply a purely local demand also gain nothing. These two groups of industries outweigh the industries which would suffer under competition. The number of persons whose incomes are diminished by protection will greatly exceed the number of persons whose incomes are enlarged by it.

If it is true that the general tendency of modern protection has been to divert income from a lower to a higher thrift class we are

justified in saying that protective duties have played a part in equipping modern society with the vast stock of capital goods which it now possesses. For proof of this we must have recourse to an analysis of the effects of protection upon capital formation in concrete instances. Let us suppose that in a country which formerly imported its silk a heavy duty is levied with the object of creating a silk-manufacturing industry at home. Men, intending to invest otherwise, are induced to go into the silk business. At the beginning the capital goods with which the new industry is equipped represent no net addition to the productive wealth of the country. But a new industry is naturally speculative in character; and the more conservative entrepreneurs are slow to enter it. In the nature of the case the industry will be undersupplied with capital. This means that capital will be more than ordinarily productive in the industry; it means further that entrepreneurs will be steadily endeavoring to secure more capital to expand their operations. Under these circumstances it is inevitable that a large proportion of the profits created by the industry will be reinvested in it. Here then we have a net addition to the productive wealth of the country.

We arrive at practically the same result if we select a commodity entering chiefly into the consumption of the wage-earners. A large proportion of the wage-earning class saves practically nothing, whether wages are high or low. Standards of consumption tend to absorb any surplus income that may appear. A duty borne by the wage-earning class places little check upon accumulation. Thus the main effect of the duty is to divert income from a lower thrift class to a higher one, and hence to give an impetus to the formation of capital.

In answer to this line of argument it is alleged that a tariff constructed in such a way as to equalize costs of production at home and abroad would not permit the surplus profits out of which capital is built. This is true. But one may safely challenge all the economists in the world to point to one instance of a "scientific" tariff. In the nature of things there can be no such tariff. What manufacturers' association would conduct political campaigns, roll logs, and otherwise exert itself for the mere privilege of being placed on an equality with the foreigner? What would be the object in establishing a new industry if it were to offer only profits that might be secured from industries already existing?

It is true that if the protected industry operates under great natural disadvantages, as in the classical case of producing wine in Scotland, the burden to the consumer will be so much greater than the net gain of the producer that the net effect upon accumulation

will be unfavorable. But it is not the practice of entrepreneurs to demand, nor of statesmen to grant, protection for industries that labor under extraordinary disadvantages. Rather the selection of industries for protection tends to be such that a greater part of the tribute exacted from the consumer is bestowed upon the producer in the form of profit instead of being wasted in the insane struggle with refractory natural conditions.

What is the test by which it can be determined whether the protective system shall be abandoned? By the academic protectionists, duties should be abolished when the protected industries are in a position to meet foreign competition. According to the theory here put forth, they should not be removed until the protected industries cease to develop rapidly. Then the duty should be removed whether the industry can meet foreign competition or not.

147. The Economics of Protection¹⁵

The economic fallacy of free trade lies, not in its logic, but in its assumptions. The latter are part and parcel of the static and individualistic system of thought of the later eighteenth century which made Nature the hero in the piece and assigned to the state the rôle of villain. At the basis of the argument for free trade are the two quite dissimilar but complementary propositions that men are guided by a supreme natural pre-wisdom to choose the best lines of production, and that the process of production consists in juggling together a certain number of productive units from each of three great hoppers, called land, labor, and capital. To make clear the dependence of the theory upon these underlying assumptions, let us strip it of its verbiage and reduce it to its simplest terms.

It may best be stated as a problem: Given a definite amount of land, of capital, and of labor; in what particular permutations shall the three be put up in such a way as to secure the largest amount of consumptive goods? Obviously, since labor and capital are the human factors, they must be economized; their supplies must be made to "go as far as possible." This can be done by making Nature shoulder the largest possible amount of the actual work of production. This last can be achieved by having each article produced in the place best fitted for its production, and letting the peoples of the various places exchange their surpluses. In other words, the best possible adjustment of the mobile factors of labor and capital must be made to the immobile factor, land. To illustrate, an attempt should not be made to produce both watches and oranges in Connecticut and Florida. With the available but limited amounts of labor

¹⁵An editorial (1915).

and capital a larger quantity of both watches and of oranges, can be produced, if Connecticut devotes itself to the production of watches and Florida to the cultivation of oranges, than if each tries to produce for itself both of these commodities. If, then, the government does not interpose artificial restrictions, a scheme of profits and losses will secure the localization of industries at places best fitted for them. Consequently a larger amount of consumable goods will be produced under free trade than under a restrictive system. The theory might properly be called the law of the economic utilization of labor and capital.

In view of this statement the weakness in the assumptions of the argument will quickly be noted. The first is the preconception of the rationality of human judgment in the localization of industry. It imputes omniscience to that judgment; for the decision has to be made before the industry is located; and the evidence to guide that judgment, in profits and losses, is not available until much later. At best, rational judgment can locate industries at points where Nature's contribution can be most fully utilized only after a protracted and costly period of experimentation. It is doubtful, too, whether the owners of natural resources, who have had little experience with the larger world of affairs, can determine just what industries are adapted to a given locality. If they are left alone, custom is likely to ripen into the inertia that breeds stagnation. Further, because of the intricacy of the industrial cycle and the imperfection and lack of availability of business barometers, it is impossible for the average business man to look into the future and see all the exigencies which converge to make a business a success or a failure. No one expert is sufficient for this task. Technical experts who know all the potential productive capacities of a particular place need to be assisted by business experts who are able to forecast demand and general business conditions. A group of them should, by the use of scientific methods, determine the industrial needs that are most pressing and the localities best adapted to the production of articles to satisfy these needs. Encouragement should be given, if conditions are favorable, to the prosecution of various businesses. Towards this end the protective tariff should prove a most useful device.

The second glaring error in the assumptions is a conception of potential resources in fixed terms. The elements out of which useful goods are made are most variable. Our natural resources are what they are, because our industrial system is what it is. Change the system, and the catalogue of our resources would be materially altered. In a sense China's wealth is far greater than Japan's, yet it lacks a certain almost indefinable dynamic quality. Labor, particularly, defies expression in rigid calculable terms. Man is possessed

of many potential gifts. The majority of these always remain latent; some two or three are developed. Take a boy from a rural environment, where possibilities are narrowly circumscribed, to a large city and watch unsuspected talents develop. Physically speaking, the amount of land, capital, and labor may remain the same. Each as it is, as a static thing, may be best utilized under free trade. But the important question is, Does society under free trade develop the most important latent capacities? Does free trade permit society to utilize its full capacity for development? The worst that is said about protection is that for a time it imposes higher prices upon consumers' goods. Admit the charge. Its cost is far more than offset by its transformation of society into a more complex and integrated whole, which offers a larger range of opportunity to the individual, and surrounds him with an atmosphere surcharged with a spirit that brings out his latent powers. Again, the fallacy of free trade is that it overlooks the possibility of developing new capacities for productive work.

The third glaring error is, in a sense, of a kind with the second. It is the assumption of a fixed quantity of each of the productive factors. Our own experience has demonstrated quite clearly the possibility of greatly increasing two of these factors, labor and capital, and in a way increasing the third, land, by the creation of an industrial system that allows a fuller utilization of natural resources. In the argument above, labor was the important factor; here capital takes the first place. The importance of a definite increase in the volume of capital is not clearly enough appreciated. Land, of course, physically speaking, is fixed in quantity. If a nation has reached the point of diminishing returns, an increase in numbers is attended by a fall in the standard of living. Material progress, then, is associated with an increase in the quantity of capital. Protection, as Professor Johnson has shown in another reading, increases for protected businesses the margins between costs and selling prices. A large part of the additional profits realized is turned back into the business in the form of reinvested capital. The growth of an industry is closely dependent upon its control by a permanent management who have vast pecuniary stakes in its success. This is possible only under a system which permits expansion through reinvestment of profits. This protection makes possible. The alternative, involving the investment of outside capital in the business, can be taken only at the cost of a sacrifice of part of the ownership, and, consequently, of the control of the enterprise. Since, therefore, material progress is dependent upon the addition of new increments to the available supply of capital, its debt to protection is a large one.

Since protection increases the amount of invested capital, it follows that it increases the incomes of the mass of individuals. The argument is perhaps already evident, but let us state it, at least for the most important share in distribution, that of labor. As political economists agree, the wages of labor depend upon the marginal productivity of the laborer. Capital increases that productivity, and consequently raises wages. To illustrate, let us take two countries, Denland and Norland. They possess the same number of laborers, similar natural resources, the same technical system, and the same amount of accumulated capital. It is evident that under our principle, the real wages will be the same in the two countries. If, however, Denland differs from Norland only in having a larger amount of accumulated capital, then the marginal laborer in that country is working with improved equipment, and will turn out a larger product than the marginal laborer in Norland. Accordingly wages will be higher. Likewise, an increase in accumulated capital in Norland itself improves the facilities with which the marginal laborer works, and consequently increases his product and his wage. Under protection, therefore, wages will be higher than under free trade.

Protection, as a system, has seemed to the economists to lack a fundamental basis only because they have insisted upon judging it on the basis of the static and individualistic assumptions underlying their own creeds. We must remember that free trade is a theory of the proper utilization of definitely limited factors of production. Protection is a theory of the development out of crude human stuff and natural resources of the largest possible productive funds and of the best conservation of these funds. It goes back of the factors of production, the starting-point of the free trader, and seeks to increase their size and intensify their force. When development stops, and society becomes static, then it will be to our advantage to adopt the free-trade theory of maximum utilization. But so long as industrial society possesses capacity for growth, we can best profit by clinging to the use of the developmental theory of protection.

D. THE TARIFF AND WAGES

148. High Wages an Obstacle to Manufacture¹⁶

BY DANIEL WEBSTER

The present price of iron at Stockholm is not far from \$40.00 at the mines. Freight, insurance, and duty make the price of Swedish

¹⁶Adapted from a speech delivered in the House of Representatives, April 1 and 2, 1824.

iron in our market about \$83.00. We perceive by this fact the cost of the iron is doubled in reaching us from the mine in which it is produced. Why, then, cannot iron be manufactured at home? Our ore is as good, or better. Nothing could be more sure of a constant sale. It is an article of absolute permanent necessity.

Sir, the true explanation seems to me to lie in the present prices of labor. I think it would cost us precisely that which we could worst afford, that is, great labor. The principal ingredient in the cost of bar iron is labor. Of manual labor, no nation has more than a certain quantity, nor can it be increased at will. As to some operations, indeed, its place may be supplied by machinery; but there are other services which machinery cannot perform for it, and which it must perform for itself. A most important question for every nation is how it can best apply that quantity of labor which it is able to perform. Labor is the great producer of wealth; it moves all other causes. If we call machinery to its aid, it is still employed, not only in using the machinery, but in making it. Now, with respect to the quantity of labor different nations are differently circumstanced. Some need, more than anything, work for hands; others require hands for work; and if we ourselves are not absolutely in the latter class, we are still, most fortunately, very near it. I cannot find that we have idle hands. The price of labor is a conclusive and unanswerable refutation of that idea; it is known to be higher with us than in any civilized state, and this is the greatest of all proofs of general happiness. Labor in this country is independent and proud. It has not to ask the patronage of capital, but capital solicits the aid of labor. This is the general truth in regard to the conditions of our whole population. The mere capacity to labor in common agricultural employments gives to our young men the assurance of independence. We have been asked whether we will allow the serfs of Russia and Sweden the benefit of making iron for us? Those same serfs, sir, do not make more than seven cents a day, and they work in these mines for that compensation because they are serfs. Have we any labor in this country that cannot be better employed than in a business which does not yield the laborer more than seven cents a day? This, it appears to me, is the true question for our consideration. There is no reason for saying that we will work iron because we have the mountains that contain the ore. We might for the same reason dig among our rocks for the scattered grains of gold and silver which might be found there.

149. Protection and High Wages¹⁷

Not only are wages in the United States twice or three times the average of Europe and from ten to twenty times those of Asiatic countries, but our hours of labor are the fewest in the world.

So far as can be learned from a rough computation of the averages in the United States, the American laborer now gets fully \$2.50 per day in a week of 54 hours' work. If we should take the average of all men, women, and children wage-earners in this country, it would be well beyond the dollar-a-day line.

The question then follows: Is not the cost of living proportionally more here than abroad? There is very little difference, the same things considered, but the American lives much better and his needs are far in excess of the foreigner's because of his education, his intelligence, and his tastes. The American two-dollar-a-day man not only gets a better living for himself and his family than the European dollar-a-day man, but the American has another dollar for comforts, conveniences, luxuries, and pleasures unknown to the European laborer.

There must be some reason for this state of affairs, and this reason is the American system of protection. That system tends to make us do practically all our own work, keeping our money at home and in constant circulation, creating and sustaining a purchasing ability that demands more and more production, the very producers becoming greater consumers of each other's products.

We are not an agricultural people. We are not a manufacturing people. We are not a mining people. Nor are we fishermen or foresters. We are productive people, and our productions include every need of man and nearly every luxury. Our small surplus is readily sold abroad, and to a greater extent than our purchases.

This is the American system of protection. This is the reason for American wages and the cause of American habits and ways of living. Our diversification of production is the greatest economic leaven of our almost immeasurable loaf of prosperity. There is only one thing that will permanently lessen it—a reduction of wages made necessary by a repeal of one or more tariff schedules bringing us into competition with the dollar-a-day labor of Europe and the dime-a-day labor of Asia. Nor does the whole chain of interdependent industries have to be broken. The breaking of a single link will work irreparable disaster. We must preserve intact our splendid American policy of protection and its attendant high wages and universal prosperity.

¹⁷Adapted from "Wages and Causes," *American Economist*, XXVIII (1901), 175.

150. The Effect of Industrial Changes on Wages¹⁸

BY ALVIN JOHNSON

A policy that draws labor from the fields that are of greater natural productiveness to fields of lower natural productiveness tends to reduce wages.

In any country wages are determined by the marginal productivity of labor. We will represent the various opportunities of employment that a country like the United States affords by the symbols, A, B, C, and D. A may stand for a group of industries in which we have exceptional advantages over foreign countries. B stands for a group of industries in which our advantages are less, C one in which they are still less, and D the group of industries in which they are least of all. When our population is so small that all our labor can be engaged in the group represented by A, wages will be at their maximum. When our population increases so that some of the labor will have to be set to work in group B, the wages of all labor must decline to the level of the productivity in that group. We will suppose that population has increased up to a point where the opportunities represented by A and B are fairly well manned, and wages are determined by the productivity of labor in B.

With wages thus determined, it is clear that no employer, without governmental aid, can afford to hire labor to exploit the opportunities represented by C and D. This would necessitate paying labor in C and D as much as it produces in B, and that by hypothesis is more than it produces in C and D.

Now let us suppose that a political party is in power which holds the belief that we should produce everything that we consume, that is, that the opportunities represented by C and D should be exploited as well as those represented by A and B. Labor may be drawn away from A and B. This involves the necessity of compensating entrepreneurs in some way for the disadvantages under which they will operate in C and D. Either wages must be reduced in A and B, or some form of subsidy must be granted to C and D.

The commodities that the industries composing C and D will produce have been hitherto, we assume, obtained from abroad through exchange for commodities produced by A and B. The government now renders this difficult by placing high duties upon the former class of commodities. This means that producers in the groups A and B—both employers and workmen—must pay higher prices for what they buy. They do not receive higher prices for what they sell; in fact, they receive lower prices, as this, we have seen, is the effect of

¹⁸Adapted from *Introduction to Economics*, pp. 359-61. Copyright by D. C. Heath & Co., 1909.

protective duties upon export industries. It appears, then, that part of the disadvantage of producers in C and D is removed by reducing wages in A and B.

After the duty has gone into effect and the prices of commodities that can be produced by C and D have risen sufficiently, enterprisers will be able to hire labor at the wages prevailing in A and B, and establish industries in C and D. So far as the remaining laborers in A and B buy the products of C and D, the difference between the price which they pay for those products and the price that they would pay if they were permitted to import those products duty-free is a tax paid not to the government, but to the producers in C and D, to enable the later to remain in business. It is an uncompensated deduction from the natural earnings of the laborers in A and B. Their wages have been reduced. Nor are the workers in C and D paid as much, estimated in purchasing power, as they would have received if they had been allowed to remain in A and B under the earlier conditions. The net effect of the imposition of the duty has been to saddle the self-supporting industries, A and B, with the support of the pauper industries, C and D. Yet the inventors of this policy have the effrontery to tell laborers in A and B that this policy is the bulwark of their high rate of wages!

The principles involved in the illustration may be stated in the following general terms: Wages in any country will be at the highest point when all the labor of that country is concentrated in the industries in which its relative advantages over other countries are greatest. If there are no protective duties whatsoever, employers will, as a rule, seek out the industries in which their country has the greatest relative advantages. Protective duties enable other industries to exist, but only through taxing the more productive industries for their support. Protection as a permanent policy means a slight reduction of money wages, and a greater reduction in wages estimated in purchasing power.

E. TARIFF POLICY IN PROCESS

151. A Half-Century of Tariff History¹⁰

BY HARRISON S. SMALLEY

A study of the historical setting of the current tariff problem need not take us back beyond the period of the Civil War. True, the tariff had played a part in politics from the beginning, a part out of all proportion to its real importance. For the first quarter-century of our

¹⁰Adapted from "A Short Sketch of American Tariff History," in *Readings in Political Economy*. Privately published, 1911.

national existence the idea of protection had found but precarious foothold in our tariff schedules. However, the natural protection furnished by the Napoleonic wars had resulted in the establishment of many manufacturing industries, which had proceeded to make their presence known immediately the war was over. The result had been a series of bills granting relatively high duties from 1819 and 1824 until 1846. However, the South had opposed, and the high level of duties had, even in those days, been subject to many vicissitudes. From 1846 until the Civil War the dominant theory underlying tariff policy had been that of revenue, but protective features had not been entirely abandoned. However, as we have said, the present era properly begins with the Civil War.²⁰

The Morrill law, passed in 1861, raised the level of duties quite substantially. Modifications in duties were constantly being made throughout the conflict, and in the end the level of duties was very greatly raised.

Although the idea of protection was quite prominent, the primary reason for the increase was the need of revenue. The government had adopted a most elaborate policy of internal taxation, including taxes on manufactured goods. It seemed just, therefore, since American producers were burdened with excise duties greatly increasing their costs of production, to protect them by a proportionally higher tariff duty. In fact, had this not been done, the government's attempt to collect revenue in many cases would have failed. Accordingly many "compensating duties" were added to the already high rates. This level was still further raised through the efforts of designing congressmen, who found it easy to secure duties for favored industries under the pretense of raising revenue.

During the war no one imagined that the excessive duties would be permanent. But the war passed, and tariffs have come and gone, but still we have a general level of duties about like that which prevailed at the end of the war. Soon after hostilities ceased Congress began to repeal the special internal revenue duties. But the compensating duties, made necessary by these, were not taken off. So today we are still paying many special duties designed to compensate manufacturers for duties which have not been levied upon them for forty years.

Several reasons may be assigned for the failure of Congress to reduce the war tariff after the close of the conflict. Its attention was largely drawn to the problems of reconstruction in comparison with which the tariff was a minor issue. Again, southern opinion, which alone was favorable to free trade, was not strong. Furthermore, the

²⁰ Mr. Smalley is not responsible for the opening paragraph.

tariff was in a state of great confusion, and its intelligent revision would have required a great deal of time and care. Still another factor of a political character was probably of considerable consequence. The Republican party had been organized as a protest against the spread of slavery. With the successful termination of the Civil War its object was accomplished. Hence it was left without a special reason for its continued existence. If the party was to remain a force in politics it must have a positive platform on which to stand. So the Republican leaders seized upon protection and made it one of their leading policies. But most important of all, the protected interests exerted in the congressional lobbies a powerful influence to prevent a reduction of duties. Indeed, from that time to this the pressure brought by protected producers upon Congress and congressmen has been the most serious obstacle in the way of tariff reform. For these reasons the war tariff level was maintained. Within a few years the popular mind became accustomed to high protection and more or less adjusted to it, and the lobbyists and representatives of protected interests found it relatively easy to secure what they wanted from Congress.

Readjustments were, of course, made; but they were more numerous than important. In 1870 under cover of certain reductions the duties were raised on a large number of articles. In 1872, because of surplus revenue, it was thought expedient to make a horizontal reduction of 10 per cent. Putting coffee and tea on the free list evidenced the determination of Congress to lower revenue rather than protective duties. In 1875 the tariff was restored to its former level. Because of a popular demand and another excess of revenue the schedules were again revised in 1883. The effort to satisfy the popular demand and at the same time to save the principle aroused considerable protest. In 1888 Cleveland came out strongly in favor of tariff reduction.

Viewing their victory at this election as a vindication of their policy, the Republicans proceeded to adopt a new tariff, the McKinley Act, which surpassed in altitude all previous achievements. How well the demand for reducing revenue without sacrificing favors was met is evidenced by their action in removing the duty on sugar, averaging 2 cents a pound, and substituting for it a bounty of 2 cents a pound on all sugar produced in this country.

The popular protest was immediate. In the election of 1890 the Democrats captured the House, and won the presidency and the Senate two years later. The panic of 1893, which came while the McKinley Act was a law, and the troubles over the coinage of silver, for a time delayed revision. They also served to destroy party unity.

A bill was passed by the House embodying substantial reductions. This, however, was radically amended by the Senate, the Republicans and a few bolting Democrats being responsible for the changes. The bill as passed embodied a series of duties lower than those of the McKinley bill, but substantially higher than those of the tariff of 1883. President Cleveland was so displeased that he allowed the bill to become a law without his signature.

The act failed to relieve the depression following the panic which had been caused very largely by the silver legislation of the Republicans. Perhaps no tariff bill could have mended matters. Certainly there was no threat to business in the Wilson-Gorman bill. Yet people began to blame the act for the failure of business to recover from the panic. The opportune reappearance of the silver question offered the Democrats a way of sidetracking the tariff. So, when Bryan in the national convention of 1896 made his "cross of gold" speech, he was hailed as the new leader of the party, and the free coinage of silver was declared to be the paramount issue.

Nevertheless, the tariff was not by any means lost from view. The Republicans, victorious in the election of 1896, felt authorized to raise the tariff once more. In consequence, they passed the Dingley law of 1897, which was a revision upward, restoring the general level of the McKinley Act.

By 1900 the Republicans had formulated an argument which proved most effective. It was: "From 1894 to 1897 we had a Democratic tariff and hard times; from 1897 to 1900 we have had a Republican tariff and prosperity." Some members of the party went so far as to attribute the panic of 1893 to the Wilson-Gorman bill, which was not passed until more than a year later. It made no difference that the Democratic tariff had been a high protective measure. Nor did it make any difference that the hard times and prosperity were due to a very large number of other causes. *Post hoc* is *propter hoc*. The Democrats lacked courage to meet the issue, and attempted to use Imperialism as a shield.

By 1904 sentiment favorable to revision had again begun to appear. The rise of the trusts, the revival of the old fear of monopoly, and the knowledge that these combinations had in many cases been able to charge high prices because they were protected from foreign competition gave impetus to the movement for tariff reform. This was increased by the growing concern over the increase in the cost of living. By 1908 the sentiment was so strong that the Republicans promised that, if successful in the election, they would revise the tariff. The courage of the Democrats had returned and they demanded downward revision both in 1904 and in 1908.

The result of the Republican victory was a special session of Congress in 1909, at which the Payne-Aldrich Act was passed. This act decreased many duties but raised many others. The general level of the Dingley bill of 1897 was maintained. It permitted no compromising of the protective principle. As yet it is not evident that it contained changes tending either to curb monopolies or to reduce the cost of living.

152. Recent Tariff History²¹

The protest against the Payne-Aldrich bill was immediate and outspoken. At the biennial election in 1910 the Democrats won control of the House by a substantial majority. Looking ahead to the presidential election of 1912, and sparring for political advantage, the majority party in the House passed several bills amending parts of the tariff act. These lowered duties, particularly on wool and products used on the farm. A personal revolt against President Taft within his party added enough votes to the Democratic minority to secure the passage of these bills through the Senate. But, as was to be expected, they were vetoed by the President.

In 1912 the tariff again became one of the main issues in the election. The sentiment for revision was based upon a number of quite different considerations. The opposition to monopoly and a belief that by legislation the government could furnish relief from the high cost of living were perhaps dominant. A belief that the tariff was conferring "special favors" upon privileged individuals, and hence was contrary to the spirit of government, was very widespread. In addition there was a substantial demand from quite a considerable contingency of manufacturers and commercial men favorable to revision. This demand was to a considerable extent due to the changed industrial position of the country. The era of prosperity through which we had passed had led to an enlargement of many plants to a point where they could supply much more than the domestic demand for their commodities. Since these businesses were in the stage of diminishing costs, they were anxious to find wider markets. Realizing that foreign trade is reciprocal, the manufacturers involved were aiming to create a domestic demand for additional foreign products in order that foreigners might have claims with which to buy American goods. Consequently some manufacturers who, in 1897, when the fight was for the domestic market, favored high duties, in 1912 were found demanding lower duties. This sentiment was strengthened by a feeling that in some branches protection was no longer necessary. This demand from manufacturers is significant because

²¹An editorial (1915).

of its evidence of a change in America's position in international trade.

Although division in Republican ranks was instrumental in giving Wilson an unprecedented vote in the electoral college, and in securing for the Democrats control of the Senate and House, there is little doubt that the country at large stood committed to a downward revision of the tariff. This was undertaken at a special session of Congress and culminated in the act of October 3, 1913. The making of no tariff bill in two generations was less influenced by the representatives of special interests sent to Washington. The bill was not extreme, but represented a genuine attempt to reduce duties. Its most significant changes were in putting wool on the free list immediately and sugar at the end of two and a half years. The former was a result of the popular agitation against the notorious Schedule K of the Payne-Aldrich Act. With free wool went the removal of the specific compensatory duties on woollens, as well as the specific duties on cottons and silks. Iron ore, pig iron, steel rails, and agricultural implements were all put on the free list. The act substituted many ad valorem for specific duties. But, since the reductions were in many cases upon articles which we habitually export, they were nominal rather than real. The reduction of duties on agricultural products is a case in point.

In general the tariff seems neither to have justified its friends nor its enemies. It has not reduced prices; nor has it led to a closing of industries and general unemployment. Its effects, if effects it has had, have been so merged with those of numerous other active factors, particularly those of the European war, that they cannot be isolated. It was not expected that the act would result in any immediate extension of foreign markets. Custom and habit are too strong, and the spirit of business enterprise a little too slow for that. Whatever effect it may have had in sending American goods abroad has lost its identity in the general stream of causes affecting trade which have come in the train of the European struggle. The stalwart Republicans are attributing current bad industrial conditions to tariff tinkering. The financial papers, however, are not demanding upward revision. Their demand just now is for business to be let alone. At present there seems to be no strong sentiment in favor of upward revision. It is, perhaps, premature to express the hope that the tariff question is settled, and is a matter of history. The old sectional clash, intensified by an industrial struggle between the interests which demand foreign markets and the industries which still wish domestic protection, is too strong for that. The questions of the distribution of wealth between classes will also serve to keep it alive. Yet, since

we are coming to grapple with the more vital problems of a full-grown industrial system, it seems safe to say it will never again have the importance which it has had in the past.

153. What a Tariff Bill Is Like²²

SECTION I

Schedule A.—Chemicals, Oils and Paints.

1. Acids: Boracic acid, $\frac{3}{4}$ cent per pound; citric acid, 5 cents per pound; formic acid, $1\frac{1}{2}$ cents per pound; gallic acid, 6 cents per pound; lactic acid, $1\frac{1}{2}$ cents per pound; oxalic acid, $1\frac{1}{2}$ cents per pound; pyrogalllic acid, 12 cents per pound; salicylic acid, $2\frac{1}{2}$ cents per pound; tannic acid and tannin, 5 cents per pound; tartaric acid, $3\frac{1}{2}$ cents per pound; all other acids and acid anhydrides not specially provided for in this section, 15 per centum ad valorem.

5. Alkalies, alkaloids, and all chemical and medicinal compounds, preparations, mixtures and salts, and combinations thereof not specially provided for in this section, 15 per centum ad valorem.

19. Chloroform, 2 cents per pound.

48. Perfumery, including cologne and other toilet waters, articles of perfumery, whether in sachets or otherwise, and all preparations used as applications to the hair, mouth, teeth, or skin, such as cosmetics, dentifrices, including tooth soaps, paste, including theatrical grease paints, and pastes, pomades, powders and other toilet preparations, all the foregoing, if containing alcohol, 40 cents per pound and 60 per centum ad valorem; if not containing alcohol, 60 per centum ad valorem; floral or flower water containing no alcohol, not specially provided for in this section, 20 per centum ad valorem.

Schedule B.—Earth, Earthenware and Glassware.

74. Plaster rock or gypsum, crude, ground or calcined, pearl hardening for paper makers' use; white, non-staining Portland cement, Keene's cement or other cement of which gypsum is the component material of chief value, and all other cements not specially provided for in this section, 10 per centum ad valorem.

91. Spectacles, eyeglasses and goggles, and frames for the same, or parts thereof, finished or unfinished, 35 per centum ad valorem.

99. Freestone, granite, sandstone, limestone, lava and all other stone suitable for use as monumental or building stone, except marble, breccia, and onyx, not specially provided for in this section, hewn, dressed, or polished, or otherwise manufactured, 25 per centum ad

²²Adapted from *The Tariff Act of October 3, 1913*, pp. 1-93. The reproduction of the act in its entirety would require about one hundred pages of the size of this one.

valorem; unmanufactured, or not dressed, hewn, or polished, 3 cents per cubic foot.

100. Grindstones, finished or unfinished, \$1.50 per ton.

Schedule C.—Metals and Manufactures of.

102. Chrome or chromium metal, ferrochrome or ferrochromium, ferromolybdenum, ferrophosphorus, ferrotitanium, ferrotungsten, ferrovanadium, molybdenum, titanium, tantalum, tungsten or wolfram metal, and ferrosilicon, and other alloys used in the manufacture of steel, not specially provided for in this section, 15 per centum ad valorem.

110. Steel bars, and tapered or beveled bars; mill shafting; pressed, sheared, or stamped shapes, not advanced in value or condition by any process or operation subsequent to the process of stamping; hammer molds or swaged steel; gun-barrel molds not in bars; all descriptions and shapes of dry sand, loam, or iron molded steel castings, sheets, and plates; all the foregoing, if made by the Bessemer, Siemens-Martin, open-hearth, or similar processes, not containing alloys, such as nickel, cobalt, vanadium, chromium, tungsten or wolfram, molybdenum, titanium, iridium, uranium, tantalum, boron, and similar alloys, 8 per centum ad valorem; steel ingots, clogged ingots, blooms and slabs, die blocks or blanks; billets and bars and tapered or beveled bars; pressed, sheared, or stamped shapes not advanced in value or condition by any process or operation subsequent to the process of stamping; hammer molds or swaged steel; gun-barrel molds not in bars; alloys used as substitutes for steel in the manufacture of tools; all descriptions and shapes of dry sand, loam, or iron molded castings, sheets, and plates; rolled wire rods in coils or bars not smaller than twenty one-hundredths of one inch in diameter, and steel not specially provided for in this section, all the foregoing when made by the crucible, electric, or cementation process, either with or without alloys, and finished by rolling, hammering, or otherwise, and all steels by whatever process made, containing alloys such as nickel, cobalt, vanadium, chromium, tungsten, wolfram, molybdenum, titanium, iridium, uranium, tantalum, boron and similar alloys, 15 per centum ad valorem.

Schedule E.—Sugar, Molasses, and Manufactures of.

177. Sugars, tank bottoms, sirups of cane juice, melada, concentrated melada, concrete and concentrated molasses, testing by the polariscope not above seventy-five degrees, seventy-one one-hundredths of 1 per cent per pound, and for every additional degree shown by the polariscopic test, twenty-six one-thousandths of 1 cent per pound additional, and fractions of a degree in proportion; molasses testing not above forty degrees, 15 per centum ad valorem;

testing above forty degrees and not above fifty-six degrees, $2\frac{1}{4}$ cents per gallon; testing above fifty-six degrees, $4\frac{1}{2}$ cents per gallon; sugar drainings and sugar sweepings shall be subject to duty as molasses or sugar, as the case may be, according to polariscopic test: *Provided*, That the duties imposed in this paragraph shall be effective on and after the first day of March, nineteen hundred and fourteen, until which date the rates of duty provided by paragraph two hundred and sixteen of the tariff Act approved August fifth, nineteen hundred and nine, shall remain in force: *Provided, however*, That so much of paragraph two hundred and sixteen of an Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes, approved August fifth, nineteen hundred and nine, as relates to the color test denominated as Number Sixteen Dutch standard in color, shall be and is hereby repealed: *Provided, further*, That on and after the first day of May, nineteen hundred and sixteen, the articles hereinbefore enumerated in this paragraph shall be admitted free of duty.

Schedule G.—Agricultural Products and Provisions.

188. Barley, 15 cents per bushel of forty-eight pounds.

193. Rice, cleaned, 1 cent per pound; uncleaned rice, or rice free from the outer hull and still having the inner cuticle on, $\frac{5}{8}$ of 1 cent per pound.

195. Butter and butter substitutes, $2\frac{1}{2}$ cents per pound.

196. Cheese and substitutes therefor, 20 per centum ad valorem.

205. Hay, \$2 per ton.

206. Honey, 10 cents per gallon.

213. Straw, 50 cents per ton.

214. Teazels, 15 per centum ad valorem.

Schedule N.—Sundries.

341. Dice, dominoes, draughts, cheesemen, chess balls, and billiard, pool, bagatelle balls, and poker chips, of ivory, bone, or other materials, 50 per centum ad valorem.

347. Feathers and downs, on the skin or otherwise, crude or not dressed, colored, or otherwise advanced or manufactured in any manner, not specially provided for in this section, 20 per centum ad valorem; when dressed, colored, or otherwise advanced or manufactured in any manner, and not suitable for use as millinery ornaments, including quilts of down and manufactures of down, 40 per centum ad valorem; artificial or ornamental feathers suitable for use as millinery ornaments, artificial and ornamental fruits, grains, leaves, flowers, and stems or parts thereof, of whatever material composed, not specially provided for in this section, 60 per centum ad valorem; boas, boutonnières, wreaths, and all articles not specially

provided for in this section, composed wholly or in chief value of any of the feathers, flowers, leaves, or other material herein mentioned, 60 per centum ad valorem: *Provided*, That the importation of aigrettes, egret plumes or so-called osprey plumes, and the feathers, quills, heads, wings, tails, skins, or parts of skins, of wild birds either raw or manufactured, and not for scientific or educational purposes, is hereby prohibited; but this provision shall not apply to the feathers or plumes of ostriches, or to the feathers or plumes of domestic fowls of any kind.

Free List.

387. Acids: Acetic or pyroligneous, arsenic or arsenious, carbolic, chromic, fluoric, hydrofluoric, hydrochloric or muriatic, nitric, phosphoric, phthalic, prussic, silicic, sulphuric or oil of vitriol, and valerianic.

389. Acorns, raw, dried or undried, but unground.

391. Agricultural implements: Plows, tooth and disk harrows, headers, harvesters, reapers, agricultural drills and planters, mowers, horserakes, cultivators, thrashing machines, cotton gins, machinery for use in the manufacture of sugar, wagons and carts, and all other agricultural implements of any kind and description, whether specifically mentioned herein or not, whether in whole or in parts, including repair parts.

407. Ashes, wood and lye of, and beet-root ashes.

457. Coffee.

512. Ice.

513. India rubber, crude, and milk of, and scrap or refuse india rubber, fit only for remanufacture.

586. Rags, not otherwise specially provided for in this section.

652. Original paintings in oil, mineral, water, or other colors, pastels, original drawings and sketches in pen and ink or pencil and water colors, artists' proof etchings unbound, and engravings and woodcuts unbound, original sculptures or statuary, including not more than two replicas or reproductions of the same.

154. The Tariff Commission²³

As the outcome of a long agitation on September 8, 1916, Congress authorized the creation of a tariff commission. This action was taken as one element in the revision of the revenue system which included the re-enactment of the income tax on a new basis and the adoption of additional tariff duties. The Tariff Commission now provided for

²³Adapted from "Washington Notes," *Journal of Political Economy*, XXIV, 1014-15. Copyright by the University of Chicago, 1916.

is "bipartisan" and consists of six members to be appointed by the President, not more than three of whom are to be members of the same political party. The function of the commission is to be that of investigating "the administration of fiscal and industrial effects of the customs laws, the relation between rates of duties on raw materials and the finished products, the effects of ad valorem and specific duties, the arrangements of schedules, the classification of articles, and like matters. Material compiled by the commission is to be furnished to the President and the appropriate committees of Congress whenever desired. The usual provisions for maintaining the secrecy of the information obtained and for organizing and inaugurating the work of the new board are included.

It is to be noted that the Tariff Commission is provided with power to furnish evidence or necessary industrial data to bodies charged with tariff revision. It is also of note that the act creating the commission has nothing to say with reference to the ascertainment of what is called "comparative cost of production." Neither is there any stress upon so-called "foreign cost of production." The powers of the new commission are broad and are stated in language free from the theoretical bias implied in the idea of the comparative cost of production.

It is generally admitted that the work of the commission will be affected in no small degree by the developments consequent upon the close of the European war. Few, if any, further changes in the tariff are to be expected for the present. No revolutionary change in the direction of foreign trade is to be looked for prior to the close of hostilities. In this view of the case the commission may have a period of uninterrupted investigation equal to the time between its organization and the end of the war.

One important phase of the commission's duty is the requirement that it shall investigate tariff relations between the United States and foreign countries, including commercial treaties, preferential tariff provisions, and the like. There is here a field for work which is not only large but likely to be of immediate importance upon the conclusion of the European war, which is not necessarily dependent upon domestic tariff legislation. The new commission thus has duties of a varied and important kind, independent of the direction taken by political events, although in this case, as in others, much will depend upon the direction given to the work by the persons who may be named members of the new organization.

F. THE ARGUMENT FROM EXPERIENCE

155. Protection and Prosperity²⁴

BY ROBERT ELLIS THOMPSON

The policy of protection is challenged now to justify itself by its works at the bar of public opinion. We are not afraid of that test. We ask your attention to its broad results.

It has raised the average of our national wealth from \$514 a head (slaves included) in 1850, to \$870 a head in 1880.

It has increased the value of our manufactures five hundred per cent, and that of our foreign commerce in the same ratio, while the commerce of England increased but three hundred and fifty per cent.

It has secured higher wages to our workmen and better prices to our farmers, without increasing to either the cost of staple manufactures, as is shown by comparing the prices of textiles and hardwares before and since 1860.

It has diversified our industries and raised our people out of that uniformity of occupation which is the mark of a low industrial development.

It has stimulated inventions and improvements to the degree that some of the great staples of necessary use have been permanently cheapened to the whole world.

It has drawn the different sections of the country into closer business relations, and has interlaced the great trunk lines of railroad to the West with others running southward.

It has brought the foreign artisan across the ocean, and has naturalized his craft on our shores, whereas free trade would have brought his work only.

It has made us as regards the great staples independent of all other countries in case of war, while it has consolidated the national unity and increased the national strength to a degree that makes the rest of mankind anxious to be at peace with us.

It has created a sentiment in favor of this policy so powerful that no political party ventures to oppose it openly, and such that the friends of free trade are hardly heard in our national campaigns.

²⁴Adapted from *Protection to Home Industry* (1886), pp. 57-58. The student can easily find for himself a contemporary reading making practically the same argument.

156. Free Trade and Prosperity²⁵**HOW WORKMEN'S WAGES HAVE GONE UP
SINCE 1880**

The increase in wages in the chief industries throughout the United Kingdom in the last 20 years, according to the Third Fiscal Blue Book (p. 212), has been as follows:

Agriculture	- - - -	10 per cent
Building Trades	- - - -	17 per cent
Coal Mining	- - - -	52 per cent
Engineering	- - - -	15 per cent
Textiles	- - - -	22 per cent

FREE TRADE MEANS AN INCREASE IN YOUR WAGES**FREE TRADE GIVES US THE FOREIGNER'S JOB**

One of the most absurd posters issued by the Tariff Reformers was one in which a British workman was supposed to say: "*The Foreigner has got my job.*"

It is the Foreigner who provides jobs for British Workmen!

**FOR EVERY £1 OF MANUFACTURED GOODS IM-
PORTED INTO THIS COUNTRY OVER £2
WORTH ARE SENT ABROAD**

THE WORLD BANKS IN BRITAIN

Under Free Trade Great Britain Is the Banking Center of the World

The growth of British banking may be measured by the value of the business transacted during the last 40 years.

Here are the figures of the Bankers Clearing House Returns:

1869	- - - - -	£3,626,000,000
1879	- - - - -	4,886,000,000
1889	- - - - -	7,619,000,000
1899	- - - - -	9,150,000,000
1909	- - - - -	13,525,000,000

²⁵Adapted from *Wages, Food Prices and Savings*, a pamphlet used by the Liberal party in the English Parliamentary campaign in 1909-10.

FREE TRADE MEANS LARGER INCOMES

Great Britain's increasing prosperity under free trade is shown by the fact that the amount raised by the income tax has steadily increased.

In 1882 a tax of 1*d.* in the £ produced
£1,915,000

In 1909 a tax of 1*d.* in the £ produced
£2,784,000

More pounds were earned, and consequently more people were able to pay income tax in 1909 than in 1882.

Those who pay income tax have larger incomes than before.

PROGRESS ON THE RAILWAY

EXPRESS SPEED TO PROSPERITY

The growth of business under free trade can be seen by the increase in the traffic on our railways as shown by the following official figures:

PASSENGER TRAFFIC RECEIPTS

1880	- - - - -	£27,200,000
1890	- - - - -	34,300,000
1900	- - - - -	45,400,000
1909	- - - - -	51,200,000

GOODS TRAFFIC RECEIPTS

1880	- - - - -	£35,700,000
1890	- - - - -	42,200,000
1900	- - - - -	53,500,000
1909	- - - - -	59,500,000

THE NUMBER OF RAILWAY SERVANTS EMPLOYED HAS INCREASED 398,000 IN 1897 TO NEARLY 500,000 IN 1909

THE PROFITS OF RAILWAYS HAVE INCREASED FROM £38,000,000 IN 1895, TO £45,136,000 IN 1909

G. PROTECTION IN PRACTICE

157. A Humble Request of Congress²⁶

Resolved, That the mutuality of the interests of the wool producers and wool manufacturers of the United States is established

²⁶ Resolutions of the National Wool Growers' Association and National Association of Wool Manufacturers, *Hearings of the Ways and Means Committee of the House of Representatives*, 60th Cong., 2d sess., House Document 143, p. 5331 (1909).

by the closest of commercial bonds, that of demand and supply; it having been demonstrated that the American grower supplies more than 70 per cent of all the wool consumed by American mills, and, with equal encouragement, would soon supply all which is properly adapted to production here; and further, it is confirmed by the experience of half a century that the periods of prosperity and depression in the two branches of the woolen industry have been identical in time and induced by the same general causes.

Resolved, That as the two branches of agricultural and manufacturing industry represented by the woolen interest involve largely the labor of the country, whose productiveness is the basis of national prosperity, sound policy requires such legislative action as shall place them on an equal footing, and give them equal encouragement and protection in competing with the accumulated capital and low wages of other countries.

Resolved, That the benefits of a truly national system, as applied to American industry, will be found in developing manufacturing and agricultural enterprise in all the States, thus furnishing markets at home for the products of both interests; and

Resolved, further, That it is the sense of this meeting that in the coming revision of the tariff the present duties both on wool and woolen goods be maintained without reduction.

158. A Recipe for Securing Duties²⁷

Elsmere, April 4, 1897

Dear Mr. Whitman: Now about the tariff. I cannot, after what has been said to me in reference to my confidential relations with the committee, keep you posted as I would like to do. . . . Let me ask you a question. Should tops at a 24-cent line have the same compensatory duty as yarns at a 30-cent line? Should tops at a 24-cent line have a compensatory duty of 27½ cents? I do not want you to intimate to any Senator that I have written you on this subject. I am kept at work from 10 A. M. until midnight and I have not sufficient clerical assistance as yet. I am the only person whom the committee allows at its meetings.

Truly yours,

S. N. D. NORTH.

Boston, June 2, 1897.

My dear Mr. North: We all depend upon you to watch closely our interests, to see that nothing is overlooked or neglected by our

²⁷ Adapted from *Hearings of the Ways and Means Committee*, *ibid.*, pp. 5492-93.

friends on the committee. I have no doubt they will do all they can do, but with so many interests to look after, our special representative must see to it that our interests receive proper attention.

Yours very truly,

WILLIAM WHITMAN

159. The Tariff a Local Issue²⁸

Local interests, rather than fundamental considerations of principle, are the motives determining the attitude of the average congressman on the tariff. He is supremely concerned with securing for the favored interests of his own district all the protection possible. His concern for interests in other districts is a mere means to this more important end. Alone he can accomplish nothing. He is perforce compelled to favor duties on articles produced elsewhere in order that he may secure what he desires. As a result a struggle over a tariff is by no means an attempt properly to apply fundamental and well-recognized principles to particular situations. It is rather an attempt to reconcile a conflict of a multitude of local and industrial interests.

The following typical proposals will give a fair idea of the raw material out of which the tariff bill of 1909 was constructed. They will also throw some light upon the logic of the process by means of which the bill finally assumed form. A Massachusetts Republican demanded that hides be put on the free list. A Texas Democrat insisted that the duty on hides be raised. A South Carolina Democrat demanded a protective duty on rice. Free coal was pronounced by a Pennsylvania Republican to be a repudiation of the policy of protection. Several representatives, from different parts of the country, pleaded for higher duties on glass. Senators from the Rocky Mountain states dwelt upon the importance of protection of wool. The representatives from California demanded protection on lemons. A Democratic senator from Texas demanded a high duty on lumber. A Michigan Republican argued as ardently for a duty on sugar. A congressman from New York insisted that a duty on postcards would even things with Germany. Only one man was patriotic enough to want to apply the principle of protection without the slightest reservation. An Iowa congressman rose to the occasion by pleading that selfishness should be laid aside, that all should forget local and personal interests, that America should be the matter of

²⁸The evidence upon which this reading is based is all taken from the *Congressional Record*, 1909.

first concern, and that the new tariff should be framed in such a way as adequately and equally to protect all industries.

Senator Knute Nelson, of Minnesota, a protectionist and a Republican, summed up the situation in these words: "I am tired of being lectured to about these schedules, and about the orthodoxy of the Republican party. Let us recognize the fact that with a tariff bill it is just as it is with the River and Harbor bills. There is no use disguising it. You tickle me and I tickle you. You give us what we want on the Pacific coast, want for our lead ore and our citrus fruit, and we will tickle you people in New England and give you what you want on your cotton goods. When you boil down the patriotism of the speeches just made you come to the same basis as that of the River and Harbor bill. You vote for my creeks, you vote for my harbors, you vote for my rivers, and I will vote for yours, and it will be all right."

160. Tariff for Politics Only²⁹

BY PETER FINLEY DUNNE

"Well, sir, 'tis a gr-r-and worruk thim Sinitors and Congressmen are doin' in Wash'n'ton. Me heart bleeds for the poor fellows, steamin' away undher th' majestic tin dome iv th' capitol thryin' to rejoyce th' tariff. The likes iv ye want to see th' tariff rejoyced with a jack plane. But th' tariff has been a good frind to some iv thim boys an' it's a frind iv frinds iv some iv th' others an' they don't intend to be rough with it. A little gentle massage to rejoyce th' most prominent prochooberances is all that is ninessry. Whiniver they rub too hard, Sinitor Aldrich says, 'Go a little asier there, boys. He's very tender in some iv thim schedules. P'raps we'd better give him a little nourishment to build him up,' he says. An' th' last I heerd about it, ye won't notice anny reduction in its weight. No sir, I shudden't be surprised if it was heartier than iver.

"Me congressman sint me a copy iv th' tariff bill th' other day. I've been studyin' it f'r a week. 'Tis a good piece of summer lithra-choor. 'Tis full iv action an' romance. It beats th' Deadwood Dick series. It gives ye some idee iv th' glorious governmint we're livin undher, to see our fair Columbia puttin' her brave young arms out defendin' th' products iv our soil fr'm steel rails to porous plasters, hooks an' eyes, artyficial horse hair and bone casings, which comes under th' head of clothin' an' I suppose is a polite name f'r pantaloon.

²⁹Adapted from "The Tariff," in *Mr. Dooley Says*, pp. 144-57. Copyright by Charles Scribner's Sons, 1909.

"Iv coorse, low people like ye, Hinmissy, will kick because it's goin' to cost ye more to indulge ye'er taste in enervating luxuries. D'ye know Sinitor Aldrich? Ye don't? He knows ye. 'Tis as if he said: 'This here vulgar plutocrat, Hinmissy, is turnin' th' heads iv our young men with his garish display. Before this, counthries have perished because iv th' ostintation iv th' arrystocracy. We must presarve th' ideals iv American simplicity. We'll put a tax iv sixty per cent on ready made clothin' costin' less thin ten dollars a suit. That'll keep Hinmissy from squanderin' money wrung fr'm Jawn D. in th' roo dilly Pay. We'll make a specyal assault on woolen socks an' cowhide shoes. We'll make an example iv this here pampered babe iv fortune,' says he.

"An' there it is. Ye haven't got a thing on ye'r back excipt ye'er skin—an' that may be there; I haven't got as far as th' hide schedule yet. It's ye'er own fault. If ye will persist in wearin' those gee-gaws ye'll have to pay f'r thim. If ye will go on decoratin' ye'er house with shingles an' paint an' puttin' paper on th' walls, ye've got to settle. That's all.

"Ye'd think th' way such as ye talk that ivrything is taxed. It ain't so. 'Tis an insult to th' pathritism iv Congress to say so. Th' Republican party, with a good deal iv assistance fr'm th' pathriotic Dimmycrats, has been thrue to its promises. Look at th' free list, if ye don't believe it. Practically ivrything nicissry to existence comes in free. What, for example, says ye. I'll look. Here it is. Curling stones. Ye'll be able to buy all ye'll need this summer for practically nawthin. What else? Well, teeth. Here it is in th' bill: 'Teeth free iv jooty.' Undher th' Dingley Bill they were heavily taxed. Onless ye cud prove that they had cost ye less thin a hundred dollars, or that ye had worn thim f'r two years in Europe, or that ye were bringin' thim in f'r scientific purposes or to give a museem, there was an enormous jooty on teeth. Now ye don't have to hand a five to th' inspiector an' whisper: 'I've got a few biscupids that I picked up abroad. Be a good fellow and let me through.' No sir, teeth are free.

"What other nicissities, says ye? Well, there's sea moss, newspapers, nuts and nux vomica. They've removed th' jooty on Pulu. I didn't think they'd go that far. Ye know what Pulu is, iv coorse, an' I'm sure ye'll be glad to know this refreshin' bev'rage or soap is on th' free list. An' cannary bur'd seed is fhree. Lookin' down th' list I see that divvy-divvy is free also. But there are other items, mind ye. Here's some of them: Apatite, hog bristles, wurruks iv art more thinn twenty years old, kelp, marshmallows, life boats, silk worm eggs, stilts, skeletons, turtles, an' leeches. Th' new tariff bill

puts these family commodityties within th' reach iv all. An' yes, opium is on th' free list. Th' tariff bill wouldn't be complete without that there item. But it ought to read: 'Opyum f'r smokin' while readin' th' tariff bill.' Ye can take this sterlin' piece of lithrachoor to a bunk with ye an' light a ball iv hop. Befure ye smoke up p'raps ye can't see where th' tariff has been rejoyced. But afther ye've had a long dhraw it all becomes clear to ye. Ye'er worries about th' children's shoes disappear an' ye see ye'ersilf floatin' over a purple sea, in ye're private yacht, lulled by th' *London Times*, surrounded be wurrks iv art more thin twinty years old, atin' marshmallows an' canary bur-rd seed, while the turtles an' leeches frisk on th' binnacle.

"Well, sir, if nobody else has read th' debates on th' tariff bill, I have. Th' walls iv Congress has resounded with th' loftiest sentiiments. Hinnery Cabin Lodge in accents that wud melt th' heart iv th' coldest manyfacthrer iv button shoes has pleaded f'r freedom f'r th' skins iv cows. I'm sorry this appeal wasn't succissful. Th' hide iv th' pauperized kine iv Europe will have to cough up at th' custom house before they can be convarted into brogans.³⁰ This pathriotic result was secured be th' gallant Sinitor fr'm Texas. He's an ardint free thrader, mind ye. He's almost a slave to th' principles iv th' Dimmycratic party. But he's no blamed bigot. He can have principles an' lave thim alone. An' I want to tell ye, me frind, that whin it comes to distributin' th' honors f'r this reform iv th' tariff, don't fail to throw a few flowers at th' ripresentatives iv our small but gallant party. It was a fine thing to see thim standin' be th' battle cry iv our grand old organyzation.

"Says th' 'Sinitor fr'm Louisyanny: 'Louisyanny, th' proudest jool in th' dyadim iv our fair land, remains thrue to th' honored teachin's iv our leaders. Th' protective tariff is an abomynation. It is crushin' out th' lives iv our people. Wan iv th' worst parts is th' tariff on lathes. Fellow sinitors, as long as one dhrop iv pathriotic blood surges through me heart, I will raise me voice again a tariff on lathes, onless,' he says, 'this dhread implyment iv oppressyon is akelly used,' he says, 'to protect th' bland an' beautiful molasses iv th' State iv me birth,' he says.

"'I am heartily in sympathy with th' sinitor fr'm Louisyanny,' says th' Sinitor fr'm Virginya. 'I loathe th' tariff. Fr'm me arliest days I was brought up to look on it with pizenous hathred. At many a convintion ye cud hear me whoopin' agin' it. But if there is such a lot iv this monsthrus iniquity passin' around, don't Virginya get

³⁰It is prosaic to spoil Mr. Dooley's figure by stating that he is wrong on this point. Hides were admitted free of duty by the Payne-Aldrich bill.

none? Gentlemen, I do not ask, I demand rights f'r me common-wealth. I will talk here ontill July fourth, nineteen hundred an' eighty-two, agin' th' proposed hellish tax on feather beds onless somethin' is done f'r th' tamarack bark iv old Virginya.'

"A sinitor: 'What's it used f'r?'"

"Th' sinitor fr'm Vifginya: 'I do not quite know. It is ayther a cure f'r hives or enthers largely into th' mannyfacture iv carpet slippers. But there's a frind iv mine who makes it an' he needs th' money.'"

"Th' argymints iv th' Sinitor fr'm Virginya are onanswerable,' says Sinitor Aldhrich. 'Wud it be agreeable to me Dimmycratic colleague to put both feather beds an' his what-ye-call-it in th' same item?'"

"'In such circumstances,' says th' Sinitor fr'm Virginya, 'I would be foorced to waive me almost insane prejudice again' th' hellish docthrines iv th' distinguished Sinitor fr'm Rhode Island,' says he.

"An' so it goes, Hinnessy. Nivir a sordid wurrud, mind ye, but ivrything done on th' fine old principle iv give an' take."

"Well," says Mr. Hinnessy, "what difference does it make? Th' foreigner pays th' tax, anyhow."

"He does," said Mr. Dooley, "if he ain't turned back at Ellis Island."

161. Tricks of Tariff Making³¹

A superficial comparison of two tariff bills gives very little clue to the differences between them. An accurate count of the number of increases and decreases in the later, as compared with the earlier bill, throws no light upon the larger question of whether the revision was an upward or a downward revision. This method is important only because of its suggestion of a method for proving to superficial observers that there has been an upward or a downward revision. Real changes and their effects can be determined only by examining rates on particular commodities in view of a knowledge of all the conditions surrounding the production of these commodities. This can be well illustrated by reference to the tariff of 1909.

The statement has been repeatedly made that this tariff substantially reduced the level of duties. The conclusion is established by the arithmetical process of counting advances and reductions. It fails, however, to take into consideration the fact that most of the duties reduced were upon commodities which are produced in this country for export. In such cases tariff duties are purely nominal.

³¹The evidence presented in this reading is all taken from "The Tariff of 1909," by H. Parker Willis, in the *Journal of Political Economy*, XVII, 597-611.

They can in the very nature of things furnish no protection, because there is nothing to protect against. On the contrary the increases were upon goods which needed, or at any rate could profit by, advances. To take a few illustrations: In Schedule A the duties on most acids were cut, as well as upon ammonia, borax, and ether. On drugs, however, which were in position to profit, substantial advances were made. In Schedule B the rates were reduced on firebrick, marble, onyx, granite, and other non-portable articles. On pumice stone and certain grades of glass, duties, however, were raised. In Schedule C the reductions in nominal duties were very large, that on iron ore dropping from 40 to 15 cents. Yet upon the more expensive and finished metal products there were material advances. The best examples in the bill, however, are contained in Schedule G, dealing with agricultural products, of which we export very large surpluses. Neglecting the obvious facts of the grain trade, Congress tried to give the impression of great care for the farmer. Thus on broom corn, which had been free, a duty of \$3 a ton was imposed; the rate on buckwheat flour was raised from 20 to 25 per cent; on oats from 15 to 20 cents a bushel. Hops were advanced from 12 to 15 cents a pound. For some obscure reason the duty on cabbages was dropped from 3 to 2 cents. Nursery stock and fruits received a general raise. Congress, of course, did not overlook the opportunity for dealing the usual "blow at the beef trust" by reducing the duty which it did not need.

But many devices much more subtle than these found their way into the bill. Many changes were made in the unit of measurement for customs purposes. Electric lighting carbons, for instance, which had been 90 cents per hundred, were now made 65 cents per hundred feet on certain grades and 35 cents on other grades, the only kind imported in practice being dutiable at the higher rate. A provision in the cotton schedule that in counting threads, upon the number of which the rate of duty depended, "all the warp and filling threads" should be included, operated practically to double the duties upon some classes of goods, in so much as, under the former method of counting, "double yarns," in which the thread is twisted together out of two or more yarns, had been counted as a single thread. The enormous concession made to the public by the reduction of the tariff on sugar by one-twentieth of a cent a pound, a reduction which could have no influence on price, was the mask for changing the method of weighing sugar, which in itself amounted to a substantial increase in duty.

These examples by no means cover the act. In fact it is doubtful whether all the tricks in the bill will ever be discovered. However,

they are typical of the kinds of tricks that are incorporated in the American tariff bill.

162. The Impossibility of Ascertaining Costs²²

BY H. PARKER WILLIS

The case against the cost-of-production theory as a regulator of tariff duties may be summed up in a series of propositions somewhat as follows:

1. In practice the ascertainment of costs is impossible. No board of commission has the power to demand cost statements from manufacturers or producers; and if it had, it could not secure truthful statements. Moreover, there is no way of obtaining statements of any kind from foreigners.
2. Even if all manufacturers both here and abroad were willing to throw open their books in an absolutely honest and impartial way to an all-powerful commission, it would be of little service. This is because cost accounting is not generally practiced by producers and because, where it is practiced, there is no general agreement as to the treatment of different elements of cost.
3. If there were a perfect system of cost accounting installed upon a uniform basis in every plant manufacturing a given article throughout the world, knowledge of comparative costs would still be of little service, since costs in every country would have to be known before any conclusions could be arrived at as to what tariff rate was needed to protect a given country against the competition of others.
4. If all these facts were known for every country, the difficulty would be about as great as it was previously if the data were to be used for the establishment of tariff rates. This is because costs of production vary as widely within a given country as they do between different countries. Unless it were known whether a duty were to be imposed for the purpose of equalizing costs as between the best, the poorest, or the average establishments in the several countries, the information about costs would be useless as a basis of tariff duties.
5. Even with knowledge on all of the points already enumerated, and with a clear-cut intention on the point indicated above, the cost analysis would still be inadequate because of the fact that many commodities are produced in groups, or as by-products of one another, so that to utilize the general cost analysis as a basis

²²Adapted from an article in the *Journal of Political Economy*, XIX (1911), 374-76.

for tariff rates, it would be necessary to know the manufacturer's intention with reference to the fixing of prices. It would further be necessary to know that the manufacturer had no disposition to establish "export prices" at rates lower than those that would be dictated by his costs of production.

6. If all of the foregoing factors were known, including positive data regarding the intention of the manufacturer in regard to the establishment of prices, there would still remain the question whether this information about costs, which is necessarily stated in terms of money, would have any real significance of a permanent economic character. Money costs do not correspond in all cases to real costs as measured by sacrifice of labor and capital. It may be true that a given country can produce much more cheaply than another, yet it does not follow that it will so produce, since its cost advantage in some other line may be so much greater as to dictate its devoting its attention almost exclusively to that line.

For all these reasons, the conclusion must be reached that cost of production is both practically impossible and theoretically unsound as a basis for the establishment of tariff duties.

H. THE TARIFF AND WORLD-TRADE

163. Recent Changes in the World's Trade³³

BY GROSVENOR M. JONES

Toward the close of the last century there was apparent a decided change in the character of the foreign trade of the United States both on the import and the export side. This was coincident with the change in the trend of our economic development. It began to appear that we were reaching the peak of our production of wheat, corn, and other grains, and that we had about reached the maximum number of cattle and sheep that could be sustained on our lands. This condition was reflected in a decrease of our exports of farm products. At this time manufactured goods began to be exported in increasing volume and there was a corresponding increase in the importation of raw materials and semi-manufactured products.

Even if the war with Europe had not occurred this shift in the character of our imports and exports would have continued. It would have been accompanied by a gradual liquidation of our indebtedness to Europe which had been created by European investments

³³Adapted from "The Declining Independence of the United States," *Annals of the American Academy of Political and Social Science*, LXXXIII, 25-34. Copyright, 1919.

in the United States and by a rapid extension of investments of American capital in foreign lands.

The war has accelerated these tendencies in foreign trade and has produced conditions which are decidedly new. It has changed us from a debtor to a creditor nation. Whereas we formerly owed Europe four or five billions Europe is now indebted to us to the extent of nine or ten billions. It has given us increased financial power. It has given us a merchant marine which we probably would not have had otherwise for many years. It has brought about a more rapid extension of our trade in foreign markets and a better understanding of the importance of foreign trade. It has resulted in a tremendous increase in our production of all classes of manufactured goods. It has stimulated new industries.

Indirectly the war has affected us by its effects upon the economic development of other countries. It has altered their relative standings in international trade to the advantage of certain countries and to the detriment of others. The full force of these changes is difficult to gauge amid the uncertainties of the transition period. Not until the nations have begun to devote their full energies to peacetime pursuits can forecasts be made with any assurance.

Of the nations of Europe none have been affected more by the war than have Great Britain and Germany. While the former has lost heavily in ships and piled up a huge debt which must place a heavy war burden upon her industries, the necessities of the war acted as a spur. The result has been that in many industries there are new and larger plants, more modern machinery, and more modern methods of manufacture. Great Britain is increasing and improving and quickening our industrial resources to an extent which would have been impossible but for the demands of the conflict.

The effects of the war upon the economic conditions of Germany cannot be appraised with accuracy as yet. This much, however, is certain. The terrific loss of men must cripple many German industries for years. The rehabilitation of the railroads and of plants in which machinery was worked to a feverish limit during the war will require several years at least. Moreover, the low stocks of important raw materials for which Germany is chiefly dependent upon other countries, coupled with her crippled financial position, must further retard her resumption of industry. The loss of the iron ore of Lorraine and the coal supplies of the Saar Valley will also have an effect. Add to these the payment of heavy indemnities and the relinquishment of most of her merchant marine, and it seems clear that it will be years before Germany can again assume an important

place in foreign commerce. Yet, freed from the burden of maintaining large military and naval establishments and with the well-recognized organizing ability of her industrialists and the thrift and energy of her population, no one can predict how soon Germany will take an influential place in international trade.

The effects of the war upon the industries of Belgium and France need not be recounted. The numerous blast furnaces, textile mills, machine shops, sugar mills, and coal mines of Belgium and northern France have been either completely wiped out or so badly damaged as to require years for making the necessary repairs. The fertility of large areas of agricultural lands has been greatly impaired and hundreds of thousand of cattle and work animals have been destroyed or consumed. The speed with which Belgium and France are restored to their former industrial position will depend largely upon the amount and character of the indemnities they receive and upon the financial assistance extended them by their Allies. Both peoples are noted for their habits of industry and thrift. The heavy losses in man power will be compensated for, in part at least, by the modernizing of industry and the introduction on a large scale of labor-saving machinery and methods.

The industrial districts of Poland, those near Warsaw in particular, have suffered heavily through actual destruction or through pillage by the Germans. Many mills in Polish industrial centers will not be restored to their former activity for many months or perhaps years.

The economic rehabilitation of Russia is doubtless the most uncertain factor in the equation. If political conditions gave only a slight promise of betterment within the coming year, it would be far easier than it is at present to gauge the future of world-trade. For, under ordinary conditions, Russia furnishes a large proportion of the world's supply of grain, lumber, hides, wool, manganese, platinum, and other commodities. Russia is now a very large but uncertain debtor to Great Britain and the United States.

In some parts of the world the war acted as a great stimulus to industry. Absorption of the leading countries of Europe in the war stimulated agriculture, mining, and manufacturing elsewhere. These industries were stimulated not only in the United States, but also in Canada, many of the Latin-American republics, Japan, China, India, the Dutch East Indies, and South Africa. The stimulus of war has greatly increased the world's production of many commodities, as, for example, wheat, corn, and rice; copper, lead, and zinc; iron and steel; textiles, machines and meat products.

The shortage of shipping during the war also has had a profound effect upon trade. The scarcity of ships necessitated their use on the shortest routes, regardless of the cost of commodities. Speed in delivery, not price, was the controlling factor. Huge quantities of goods in Australian ports, although available at prices far below similar products raised in the Argentine and the United States, were unavailable because of the scarcity of shipping. Time was the essence and the nearest market was given the preference. This has had the effect of establishing more direct routes for American trade.

Far from helping, the great excess of value of exports over imports, produced by the abnormal war demands of Europe, has become so great as to threaten a temporary impairment of our foreign trade. This comes just at a time when this trade is needed to take up the slack of the after-war period.

This check need not cause alarm. It is a natural reaction from the long period of extensive foreign buying in our markets. During the war the so-called favorable balance of trade has been liquidated in part by the return of several billions of American securities and by the payment of more than a billion dollars in gold; but an even greater amount is still due us in the form of British and French government loans.

It is clear that Europe cannot continue to import in large volume from the United States without some new financial arrangements. Yet Europe must buy of us large quantities of foodstuffs, cotton, lumber, hides, copper, other necessary raw materials, iron and steel products, and machinery. During the coming year these purchases will probably far outrun in value our purchases in Europe. How can Europe liquidate this unfavorable trade balance in addition to paying five or six hundred millions of dollars in annual interest on her debt to us. The factors enumerated below give the probable answer to the problem: (1) We might invest largely in public-service and industrial enterprises in France and Belgium. (2) We might increase our importation of raw materials or semi-manufactured articles. (3) The resumption of travel in Europe would doubtless help to restore the balance sheet. (4) The remittances of Americans to relatives and friends in Europe will doubtless be far in excess of sums sent in the past, since there will be large demands upon the generosity of the more fortunate kinsmen in the Old World. Of these devices that of large-scale investments in European enterprises seems to be most practical and most important.

The war, it is clear, has changed, at least temporarily, the character, extent, and direction of our foreign trade. While it has freed us from indebtedness to Europe, it has made us more dependent

upon other parts of the world for supplies of foodstuffs and many important raw materials. This dependence increases as our population grows, as our manufacturing industries become larger and more diversified, and as the costs of interior transportation in the United States become higher. In addition we shall find it necessary to receive interest payments on foreign investments and on loans to foreign governments largely in the form of foodstuffs, raw materials, and semi-manufactured goods. This will tend to facilitate importation and to make us more largely dependent upon other countries than we now are. Our proud boast of self-sufficiency can be made with less assurance than formerly.

164. The Increase in Shipping²⁴

BY RAYMOND GARFIELD GETTELL

A few months after the passage of the act creating the United States Shipping Board, the nation entered the war. Unrestricted submarine warfare was destroying the world's shipping faster than it could be replaced, and the United States was faced, not merely with the difficulty of securing shipping space for the accumulation of goods awaiting shipment abroad, but also with the problem of finding facilities for transporting to Europe a large army with all equipment and supplies. Under these conditions the construction and acquisition of vessels and their effective operation became paramount, and the question of regulation of private shipping relatively unimportant. The war program compelled the Shipping Board to secure a large ocean-going fleet as speedily as possible.

Acting under the authority of the Shipping Act, the Shipping Board on April 16, 1917, organized the Emergency Fleet Corporation, and delegated to it the execution of its construction program. After some delay the corporation began to give contracts for what is probably the largest construction undertaking ever attempted by a single institution.

When the United States entered the war there were thirty-seven shipyards building steel vessels in the United States, and twenty-four yards building wooden vessels. In these yards were a total of 235 shipways. Seventy per cent of the ways of the steel yards were being used in construction for the navy, and many of the modern yards were unfit for modern shipbuilding purposes. To procure ships it was, therefore, necessary to expand existing yards and build new

²⁴Adapted from "Shipping and World-Politics," *Atlantic Monthly*, CXXIII, 257-60. Copyright by the Atlantic Monthly Co., 1919.

ones. The number of steel yards has been approximately doubled and of wooden yards trebled since the United States entered the war.

In addition, four large agency yards, with 196 shipways for the construction of fabricated steel vessels were built. These yards alone, when in full operation, can produce more tonnage per year than all the yards in any country have produced in any year up to this time. Government yards for the construction of concrete vessels were also established. There are now over two hundred shipyards, with more than one hundred shipways, in the United States. Contracts providing for more than 2,000 vessels, aggregating 15,000,000 dead-weight tons, have been given to these yards, and completed vessels have been turned out in record time. The delivery of a 3,500-ton vessel ready for service thirty-seven days after work was started on it is a sample of the amazing achievements of our new shipbuilding industry. Prior to the war the United States was a poor third among shipbuilding nations. It now ranks first in shipyards, shipways, shipyard workers, ships under construction, and ships completed during the past year.

Meanwhile the Shipping Board was given the authority to take over the title or the use of American vessels or vessels building in American shipyards. On August 3, 1917, all steel vessels of 2,500 dead-weight tone or over under construction or under order in American shipyards for private or foreign owners, were requisitioned. The second step involved the requisition of American vessels in active service; and on October 12, 1917, a general requisition order was issued, by which all American steel power-driven cargo vessels of 2,500 dead-weight tons, or over, and all American passenger vessels of 2,500 tons gross register, suitable for foreign service, were taken over. Some of these vessels have since been released from requisition and additional vessels have been taken by special order. At present there are about 450 ships, aggregating 3,000,000 dead-weight tons, under requisition to the Shipping Board. These vessels are in general intrusted for operation to companies by which they were formerly controlled, but under strict governmental regulation.

When the United States entered the war there were interned in the United States and in its island territories ninety-nine German vessels of about 650,000 dead-weight tons. A joint resolution of Congress authorized the President to take possession of all vessels within the jurisdiction of the United States which were under enemy ownership or registry. This power was conferred on the Shipping Board by executive order June 30, 1917, and the necessary steps were taken by formal seizure to confirm possession of these vessels. A number of German and Austrian vessels, seized by other countries, were later

purchased or chartered by the Shipping Board and by American citizens. In addition on March 30, 1918, the President issued a proclamation which brought under the control of the Shipping Board eighty-nine Dutch vessels of over 500,000 dead-weight tons.

In addition the Shipping Board has chartered about three hundred vessels of over 1,200,000 dead-weight tons from other countries, chiefly neutral; and American citizens have chartered about an equal tonnage of foreign ships. Arrangements have also been made with Japan for the purchase of fifteen completed ships of 127,000 tons and for the construction in Japanese yards of about fifty vessels of 380,000 tons. Contracts have also been let for the construction of four vessels in a Chinese shipyard.

By these various steps the Shipping Board now has under its control more than 2,000 vessels, of about 10,000,000 dead-weight tonnage. If the construction program is continued as planned, the United States will possess in 1920 a merchant marine of 25,000,000 tons. This is equivalent to one-third of the world's tonnage at the outbreak of the war, and will place the United States abreast of Great Britain as an ocean carrier.

165. New Policies in Foreign Trade²⁵

BY WILLIAM B. COLVER

Altered commercial conditions in international trade resulting from the world-war have completely disarranged the world's commercial chessboard. A regrouping is taking place whereby the relative positions and spheres of influence of the leading commercial countries are being vitally affected. This universal dislocation of commerce has greatly stimulated activity in foreign trade. Efforts to regain what has been lost or is being endangered by new competitors, and to hold and expand what has been newly acquired, surpasses all precedents in scope, in keenness of rivalry, and in systematic method of endeavor. A world-wide drive for foreign trade has begun. The nature and intensity of this can be indicated by an enumeration of the details which together form the foreign trade policies which the various countries of the world are now formulating. For our purposes the developing trade methods and policy of Japan will serve as a typical example.

The expansion of Japan's trade and industries during the war has been phenomenal. Large orders for munitions from the Allies and

²⁵Adapted from "Recent Phases of Competition in International Trade," *Annals of the American Academy of Political and Social Science*, LXXXIII, 223-48. Copyright by the Academy, 1919.

requirements from the Far Eastern countries, where the imports from Germany had ceased to come, enlivened the export trade. The scarcity of freight space throughout the world and the abnormal chartering of Japanese ships for foreign trade stimulated shipbuilding. The sudden shortage of imported chemico-industrial products and of machinery caused new enterprises in those lines to spring up at home. Lastly, the great accumulation of funds facilitated the expansion of commercial and industrial activities.

Japanese business men were quick to recognize the opportunities open to them in foreign markets. In a systematic way and backed by their government, a well-organized trade machinery was established with the result that the value of the total exports from that country was trebled in 1918 as compared with 1913.

During the war Japan's exports of cotton cloth have been multiplied five-fold in value. The government recognizes that if newly gained markets are to be retained, the quality of Japanese cotton cloths must bear comparison with that of cloths of British and other production. Japanese manufacturers will, therefore, be required by the government to keep their exports up to a fixed high standard. The Department of Agriculture and Commerce announced recently that a scheme was in preparation for the formation of an association of textile manufacturers, which would be charged by the government with strict supervision over goods woven for export. The association will also examine such goods through inspection committees, and bounties will be granted by the government to bear part of the cost of conditioning exports.

In Japan the subsidizing of commerce is practiced on a larger scale than in other countries. During the past four years this policy has been pursued with an increased vigor, particularly in connection with those industries which are calculated to net large increases in foreign trade. Under a special law enacted in 1915 the government is authorized to give financial aid to the dyestuffs industry. A determined attempt is being made to introduce Japanese dyes in the markets of the Far Eastern countries. Japan supplies about 28 per cent of the total world's consumption of silk. Approximately one-third of her total exports prior to the war consisted of raw silk. Comprehensive plans have been made to foster this trade.

The expansion of her merchant marine has been consistently advocated in Japan's foreign trade policy. During the war shipbuilding has been promoted by all possible means, and governmental subsidies have been freely extended for this purpose. Japanese vessels now run on four great routes to Europe, North America, South America, and Australia. There are also lines plying between Japanese

ports and Korea, Northern China, and nine ports on the Yangtsekiang. The Japanese government exercises strict supervision over shipping.

The Japanese banks are active forces in the foreign trade machinery. The Yokohama Specie Bank, for instance, had its charter modified in order to enlarge its foreign trade department. Other banks are also extending their operations at home and abroad, and are giving financial help to shipping undertakings. At present they are giving attention to the mineral resources of China. They are also reported to be considering the establishment of electrical undertakings in the interior of China with Japanese money, machinery, and engineers.

Recently the keenness of the Japanese has been apparent in the systematic way in which they are extending trade with the countries round about. A commercial museum is to be established at Singapore with the object of extending trade through that center. Not only will merchandise be exhibited, but investigations relating to trade and commerce will be undertaken. The museum is intended to become a central base of Japan's commercial operations in that part of the world. The establishment of similar institutions is contemplated in due course of time at other places.

This single example is typical of the world-wide preparations for post-war competition in international trade. An analysis of the whole situation makes it appear that, in the future, competition in the world's markets will be carried along different lines than in the past. Improved methods of trade expansion and new policies of trade strategy have been introduced. A much greater degree of solidarity of commercial interests has been brought about through the formation of trade associations and combinations of manufacturers and exporters. Through various forms of participation in industry, especially by granting subsidies, new domestic interests have been firmly established. By means of bank amalgamations and through interlacing directorates huge agglomerations of capital have been effected. International promoting companies have been formed for acquiring and developing mining, transportation and other concessions in foreign countries.

In view of this situation the demand of the hour seems to point out the need of constructive action on an international basis for the future protection of commerce and trade. A new international code of regulations for the protection of industrial property against unfair methods of competition, dumping, infringements of patents and trade-marks, and potent means for enforcing agreements of this kind through an international tribunal of commerce and trade, may prove

to be one of the most important instruments for preventing friction and promoting good-will in the commercial theater of the world.

166. Export Associations²⁶

"Export Associations," as they were conceived by those who devised the Webb-Pomerene Act, signed by the President on April 10, 1918, are groups of competing manufacturers, producers, or other business concerns. They could not get together before in a formal business agreement because of the Sherman Antitrust Law. Now they are permitted to form a special kind of corporation or company, with a charter obtained from any of the states in the usual way. They can engage in foreign trade in combination without fear of prosecution under the antitrust laws unless they resort to obviously unfair practices. They cannot use their association to affect any kind of control of business in the United States.

Probably the most typical export association already incorporated is the Copper Export Association. The whole nation has a business interest in permitting the copper producers to get together and meet as a unit organization the buying combine of Europe. Over ten years ago the European trust of copper buyers took advantage of the unorganized copper producers of this country, forbidden as they were to join in any policy of price-control. As a result American copper was obtained by European manufacturers, delivered in Europe, at nearly half a cent a pound below the American market price which our manufacturers paid. In America competition was enforced upon sellers and buyers. In Europe buyers could combine in their campaign and use our enforced competition to their advantage. The Copper Export Association, consisting of fourteen American corporations, which do no export business except through their association, makes the price for the foreign buyers. Already export copper prices are higher than domestic.

This is the typical export association contemplated by the framers of the law. It is a "horizontal" combination of business concerns which produce or manufacture the same goods and are competitors for the business within the United States. They are forbidden by the Sherman Act to do anything to control domestic prices or distribution. In keeping with the Webb-Pomerene Act they have accomplished a complete merger of all their foreign business.

There is another kind of combination which it has all along been believed to be legal under the Sherman Act. This is the "perpendicu-

²⁶Adapted from an unsigned article entitled "Beginning the Merger Period of World-Wide American Business," *The Americas*, V (No. 5), 1-3. Copyright by the National City Bank of New York, 1918.

lar" or "tandem" combination of producers, manufacturers, or merchants of lines of goods which are not directly competitive, but are in the same "line," and together make up complete lines or assortments of merchandise. The International Paper Export Association was this kind of "perpendicular" combination and did business abroad for several years. It contained one newsprint manufacturer, one writing-paper manufacturer, etc., and no competitors. It was able to offer to foreign customers any kind of paper product they needed, and enjoyed all the economies of a selling organization made possible by this arrangement. It is not now certain whether this kind of combination can continue without coming under the terms of the Webb-Pomerene Act.

The adoption of the new law has advertised all over the country the advantages of formal combination in conducting foreign business. As a result it seems evident that our coming effort for export business will consist largely of highly organized combination, amounting in some cases to "super-organization," of grouped business interests. We are on a wave of consolidation and merger as applied to developing foreign trade. This is very much like the beginning of our great period of industrial, railway, banking, and commercial combination of twenty years ago.

I. TRADE AND THE PEACE OF THE WORLD

167. Protection and the National Defense⁸⁷

Until a few months ago it was conventional to insist that even the partial free trade which has been attained in the Western World has caused the war-drum to throb no longer. The argument was rational, and since it was assumed, for some unknown reason, that man's actions were rational, it was quite convincing. It ran something like this: The actions of nations, like those of individuals, are premised upon a desire to realize the highest measure of material welfare. States are, therefore, likely to do those things which lead to an increase in welfare, and to leave undone those things which seriously threaten it. Now commerce ties industrial countries together with bonds of common pecuniary interests. So close are these and so intricate is the scheme of pecuniary interests which is created, that anything which breaks the commercial nexus seriously threatens the profits and material welfare of capitalists and laborers alike in many industries in many countries. Because these relations are not of

⁸⁷An editorial (1915).

dependence, but rather of interdependence, nations cannot afford to fight. The antipathy to fighting is strengthened by the prominence of commercial opinion in determining national policy. On the contrary the gains from war are illusory. Increases in territory are nominal rather than real. They are attended by no great increase in material welfare. Indemnities do not repay their cost of collection. Loot is a breach of the ethics of warfare. Consequently the partial free trade of the present is an excellent investment in peace insurance.

Unfortunately, however, the events of the last few months have proved that the wisdom of nations does not reside in the rational calculations of ledgers. The pecuniary fact has as yet completely conquered neither the statesman nor the man in the street sufficiently to make economics the basis of national action. Instinct and impulse are still associated with rationality in political judgment. Race and creed and politics are still matters of concern. The pocketbook has not mastered hate, and the bank-ledger has not as yet won the victory over jealousy. Accordingly, the European conflict teaches quite clearly that, whatever may be rational, there is more than a possibility that a nation may find itself suddenly at war.

The supreme national duty, then, is to be ready for war. In this preparation the tariff policy is a matter of the greatest moment. Clearly, whatever may be our disadvantage, it will not do to depend upon a foreign source of supply for munitions of war. A navy alone may stand between us and that source. Should the fleet be defeated, there would be no chance for us to save ourselves. But only a moment's reflection is necessary to show that, even if we manufacture our own munitions, it is equally necessary that we produce the raw materials out of which they are to be made. The cutting off of a single essential raw material would prove fatal. To munitions must be added all that long list of articles which, under modern conditions, are essential to the successful conduct of the war. Soldiers, if they are expected to win battles, must be properly fed, clothed, and housed. We can depend upon the caprice of import for no article essential to their personal efficiency. We must also have many auxiliary articles and devices upon which the success of the force as a fighting unit depends. These include horses, automobiles, gasoline, copper, steel, drugs, chemicals, and innumerable other things. Our transportation system, too, must be prepared to meet military exigencies. In short, war practically involves, as it is carried on under the modern machine process, making the whole industrial system function toward military efficiency. War comes unexpectedly. An industry, on the contrary, cannot be quickly started. Time and experimentation are necessary

to make it fit into a complicated industrial scheme. Consequently industries which supply every essential article required in war must be built up to high efficiency in time of peace. At best we can expect only a few industries to be built up in just the right way in response to the capricious demand of pecuniary profit. A use, and a very extensive use of protection is, therefore, necessary to prepare a nation for the acute stress that may mean life or death.

168. The Future of Trade and Peace⁸⁸

BY J. RUSSEL SMITH

The pictured world of almost countless comfortable millions, with plenty of goods, developing trade, education, the arts, and the great art of living, can only inhabit the earth if we can banish from it permanently several conspicuous characters of history—Captain Kidd, Alexander, Caesar, Tamerlane, the Kaiser. Those accursed twins, the pirate and the conqueror, one using government as a sham, the other boldly flouting it, are the archenemies of world-peace. History, if we take the record of the race in perspective, is a sad chronicle of almost unending marauding conquest. Civilizations have risen only to fall before the smashing blow of some vigorous band of rovers. Organized society only arises in spots easy of protection and survives for a time until attack from the outside becomes stronger than defense from within.

The world is one. It is one in trade; it must also become one in government. The most serious question just at present facing the human race is this: whose government shall it be? Shall we have a recurrence of world-empire, world-dominion, world-obedience, world-tribute, world-submission, or shall we have a democracy of peoples, each free to develop its bit of the earth, to perfect its own way of doing things, to trade with its neighbors, to live as do the citizens of any other well-ordered community—tending their gardens, training their children, buying and selling, coming and going obedient to no one, or to no class, but obedient to the will of all?

Our thinking must grow up. We have developed world-trade, world-investment, world-enterprise. Enterprise must not run loose and uncontrolled because it is bigger than man's mind, or rather bigger than man's habit of thinking. We have been trying to run twentieth-century business with seventeenth-century thinking. Our mental concepts, our mental content, our mental habits are of an age long past. We can make a scientific machine in five years and put

⁸⁸Adapted from *Influence of the Great War Upon Shipping*, pp. 342-50. Copyright by the Carnegie Endowment for International Peace, 1919.

it to work, but it is a slow job to readjust society to it. We must develop world-thinking and world-government to match world-enterprise, or suffer. Just as the thirteen states relinquished the possibility of exploiting each other through war, tariff, trade, and financial disagreement, so the nations of the world, if they would keep the peace, must stop the exploitation of one regional group of people by another.

To make this world-organization survive several conditions are necessary. First, all must have access to the sea. There must be no more question about the right of a people to have free access to the sea than there is about the right of a man to have free access to the public street or road. Second, we must reduce the temptations to war. War arises out of two desires; one the lust of dominion, and the other the desire for special privilege upon the face of the earth. Especially dangerous is the white man's desire to keep his land white and to exclude the yellow man and the black man. This exclusion rests on force; yet it is one of the things we hold most dear. If we will insist upon it, as perhaps we shall, we must mitigate it as far as possible by the abolition of tariffs. The free exchange of commodities will do much to share the advantages of exclusive possession of territory and reduce the need which yellow men of densely peopled lands feel for the empty lands of the white man.

International trade policy thus becomes one of the great cares of those who reorganize the world for peace. Tariffs are the chief factor in trade policy. Fortunately, of the two reasons for tariffs recognized by economists, one is passing by a process of legislation and the other will be gradually and automatically removed in exact proportion to the strength of a league to enforce peace. These two reasons for the tariff are (1) the necessity of starting infant industries and (2) industrial completeness necessary for war. As to the first, if the tariff policy aims merely at a protection of infant industries during the period of infancy, it should be the cause of no friction.

The second argument for tariffs is the more potent one. There is almost no limit to its application now that war has become so industrial. Along with this idea we should never lose sight of the fact that all economists recognize in the tariff a factor increasing the cost of living in the country possessing it. The tariff, except as a starter of new industries, tends to impoverish; conversely, free trade tends to enrich by giving the importing country the advantage of the specialization that may be developed in all other countries.

At the present moment the pains and perils of the Great War have served to emphasize the importance of tariffs as factors aiding the

industrial completeness necessary to national defense. We have, however, already passed the point of the possibility of this as a general policy for the nations of the world. We have developed population and trade too far; industry and war have become too complex for any nation to hope to be commercially independent, even if its variety of resources is as great as that of this country. Everyone knows that England and Holland, France and Norway are dependent upon the sea; but so also is the United States. Our steel industry, with its whole great class of war supplies, can be ruined by cutting off imported ores used in hardening steel.

Tariffs cannot make us, even in the United States, independent in war, although if deliberately used for that purpose they could make us nearly independent, but at a great cost through high living expenses and inefficient industry.

Every year science is making military completeness less possible, attack more deadly, and isolation more impossible. The past is gone, along with it isolation is also gone. The world has given hostage to peace. Our century of world-trade has already developed the degree of independence of nations and dependence on the sea and ships, whereby we are compelled to maintain this commerce or lapse back to a past epoch of small population or obedience to some tyrant. We must unite in world-organization with a free sea permitting world-trade, or start into an epoch of militarism with the menace of being united by some world-conqueror taking a rich world-tribute.

We cannot hope to remove from man the lust of world-dominion, but we can do much to remove from it an admixture of the desire for land and the desire for trade privilege. We cannot hope to remove land hunger, but we can gradually dull the appetite by establishing freedom of trade, which will still leave peoples free to develop their own special conditions. By this mitigation of desire we have some chance of organizing the world so that it may be able to suppress the lust of dominion and this modified land hunger.

169. The Cult of National Self-Sufficiency⁸⁹

BY EDWIN CANNAN

The cult of national self-sufficiency is incompatible with peace, since it must inevitably render warfare perpetual by making it necessary for each nation to grab territory which contains the source of some product which it has not got in its existing territory and which

⁸⁹Adapted from "*The Influence of the War on Commercial Policy*," pp. 44-45, "Reorganization of Industry Series," III. Published by the Council of Ruskin College, London, 1917.

it must have in order to be self-sufficient. We have seen a little of this already; it would be more and more serious, the more intense the worship of self-sufficiency. Supposing the bigger empires managed to settle down to an uneasy peace, what would become of the smaller countries? What is to become of Denmark, Sweden, Portugal, when the big countries reached a high degree of self-sufficiency and would not deal with them? They must join the bigger countries, and soon there would be only two or three great powers in the world which, after a second or third Armageddon, would be reduced to one by some struggle for the source of some indispensable article.

Such arguments may seem telling enough in the countries which are too small to allow the lust of power to flourish. But in the greater empires they are likely to fall on deaf ears so long as the present state of sentiment prevails. In each of these people will be found to believe that their own country is the best situated for the struggle. In the large scattered empire of which the parts are separated by long distances over sea, people think they can best be independent of outside supplies because their dominions extend into every zone of temperature and include every kind of soil. In the smaller but compact empire the weaknesses of the larger but more scattered one—its liability to succumb to submarine attack for example—are clearly perceived, and it is hoped that the more compact area will win through with the aid afforded by science in providing substitutes for imported products. So long as the question is considered from a purely national point of view, and so long as patriotism is confounded with contempt and hatred of other nations, we may doubt if argument directed to show the suicidal character of the gospel of self-sufficiency will have much effect in the greater countries. When two men desirous of killing each other are locked together in the water, it is not much use to tell them to let go if each thinks the other will drown first.

VIII

THE PROBLEM OF RAILWAY REGULATION

In a machine system continental in extent and embracing a varied host of correlated industrial activities the railroad occupies a position of strategic importance. Through it the vast and intricate gear of "the industrial machine" is made to "engage." Its rates, by influencing costs and prices, perform important services in the organization and direction of industry. It is inevitable, therefore, that we should have "a railroad problem" which three considerations impel the public to keep alive. First, the railroad is an industrial unit of large size; and in a country steeped in the conventions of competition, the giant is always under suspicion. Second, the business tends to be monopolistic; and to monopoly the public imputes not only horns and forked tail, but a capacious maw as well. Third, it is an instrument possessed of great powers of industrial control; for through its "manipulation" of rates it can cause industry to flourish or fade; it can give to industrial development a "natural" or an untoward direction. These considerations have caused the problem to wear a constant freshness which comes from its varied and never-ending sequel.

When "railroads were new" our people were thoroughly imbued with individualism. Firmly convinced were they that one should have what he earned, and that he earned "what he got." They were satisfied that in competition the public possessed an adequate safeguard. They did not hesitate to pronounce "regulation" "meddlesome interference" and to characterize the almost unthinkable proposal of government ownership as "socialistic." But they had no adequate conception of the nature of the railroad industry. They did not see that railway economy requires monopoly; that the proper performance of its services requires the business to be endowed with public powers; that costs of particular services cannot be isolated to do duty as bases for particular rates; and that "normally the industry is in a stage of increasing returns."

These economic characteristics of the industry, quite in opposition to popular theory, have determined our policy in dealing with it. We have found that attempts to fix rates by competition have resulted in alternate periods of high and low charges, in fluctuating dividends and prices of securities, in speculation and "railroad wrecking," in unpredictable items of future cost, introducing elements of grave risk into every business enterprise. We have been confronted with abundant testimony of discriminations in favor of large shippers and particular localities; and have concluded that "unreasonable rates" were interfering with the "natural" course of development and were favoring monopoly. And more than once we have suspected that, because of its peculiar position, the railroad was inclined to charge too much. These observations we have translated into problems, which through the state, we have tried to solve.

A protracted and unpleasant experience has convinced us, slowly to be sure, that the problem cannot be solved in terms of competition. We have never been quite willing formally to renounce so efficacious an instrument of salvation; but, unconventionally at any rate, we have little by little quit trying to make the railroads compete.

Primarily, perhaps, because discrimination appeals to us as unjust, we have given our attention to the problem of preventing interference with the "natural" course of development. This problem is still in process of solu-

tion. The outlawing of rebates has brought forth an almost infinite variety of ingenious substitutes. As these have been relegated to outer darkness their places have been taken by others. After many years of strenuous effort we have not as yet succeeded in ridding ourselves of this "evil." In fact, it seems that its extirpation can be achieved only by a careful supervision of such matters as billing, the collection of claims, the making of purchases, etc. At present many discriminations are concealed in differences in service. We are realizing this, and service is beginning to be standardized by governmental authority.

The problem of the railroad as a monopoly is also "in solution." The grant to the Interstate Commerce Commission of authority to set aside particular rates soon grew into the power to prescribe whole schedules of rates. With this process has come many new "problems." To prescribe "reasonable rates," the Commission has had to know costs. To determine these, it has been compelled, with the assent of Congress, to prescribe uniform accounting systems. The problem has further involved a determination "of what the investment would bear." This has necessitated an evaluation of the railroad properties of the country, an undertaking that will not be completed for many years. The intention, underlying this appraisal, is to limit profits, by a limitation of rates, to a reasonable return. To quite a different effect, soon after the European war began, the "eastern railroads" were granted permission to raise rates, their plea being one of insufficient profit. Together these things are indications of the development of a policy of limiting railroad dividends to a "fair figure" and of guaranteeing this modest income.

Before this line of development had run its course and the outlines of future railroad policy were assured, several unexpected factors entered to confuse both of these problems. Before we entered the war the country was confronted with an increased demand for transportation facilities; greatly increased prices for terminals, extra tracks, and other extensions and improvements; great difficulty in finding private capital for such expansion of service; and rapidly mounting costs of items getting into "operating costs." The war brought an increased demand for service, increased cost of operation, and the necessity of a unified operation of railway properties under governmental control. The requirements of service forced substantial wage increases as a means of keeping labor in competition with war industries. The demands found a passing solution in what is roughly described as "the government's taking over the railroads" but what in reality is private operation under mild federal supervision with an assumption of all the risks of the business by the government.

As a result there has come a change in the terms, if not the form, of the railway problem. Some plan must be found for returning the railroads to private owners. Some scheme of supervision must be devised to insure unity of operation and adequacy of service from them. Roads strategically situated must be limited to a reasonable return on their investments. Roads socially necessary but with less favorable strategic positions must be given an adequate guaranty of earnings. A plan must be devised for insuring funds sufficient to provide transportation service for an expanding and developing country. Disputes over wages and hours must be settled without impairing the service furnished by the carriers. Together these problems constitute the railway problem of the future, but they make of it a somewhat different problem.

These implications of legislation, of administration, of war control, of industrial policy deserves more than passing notice. Our devotion to individualism is still strong; our faith in the efficacy of competition, even if shaken a bit, is still firm; we still refuse to discuss government ownership as a practical question. But despite all this, we have created a system of government regulation which involves supervising accounts, evaluating property, fixing rates, and standardizing service; which threatens supervision of expenditures and investments; and which tends to limit the railroad to a definite guaranteed return on its investment. Control is very rapidly passing into the hands of the state.

The step to the formal assumption of management by the state may be a tedious, but it is logically a short one. At present we face the alternative of direct public control or private control under greater public supervision than has been exercised before. Because of an impression that government management during the war was less successful than it might have been, the public is likely, formally at least, to prefer the latter. But increased supervision, guaranteed returns, and, above all the seeming necessity for the government to furnish capital gives a decided bent toward some form of public control. Eventually the transition to a new form of control can be effected by a simple substitution of government bonds for the waning percentage of privately owned railroad securities. Are we destined to take it? If we do, will it be a simple matter of conscious choice? Or will it be a solution that has been forced upon us unwittingly through our attempt to solve isolated railroad problems one at a time?

Before it has come about that one "railroad problem" after another has been "solved," only to leave a bigger and more difficult problem in its place. The question of government ownership is more intricate than any of its predecessors. If the state does take over the roads, what will be the net gain? Will we be better off than we now are? Will we be better off than we would have been had we never embarked on a course of regulation? If our railroads are socialized, what is the effect likely to be in the solution of our other problems, for instance that of monopoly? What influence is such a step likely to exert upon our theory of the relation of the state to industry and upon our fundamental "principles" and "concepts"? Are we thus for the last time dealing with the railroad problem in isolation, or is it likely to continue with us in ever-varied forms? Is government ownership a mere means of merging a particular problem in the larger problem of the socialization of industry? After government ownership—what?

A. THE BASIS OF THE PROBLEM

170. The Dual Nature of the Railway Corporation¹

We are all familiar with the easygoing classification of business enterprises into public and private. There is something quite satisfying about the ready way in which this antithesis permits one to call the corner grocery a private business and the mail service a public enterprise. Since the two classes are all-comprehensive and mutually exclusive, it is quite unfortunate that their author was not possessed of the supreme pre-wisdom to make provision for the railway which in course of time was to appear, reach gigantic proportions, work itself into the whole fabric of the industrial system, and spoil a very serviceable antithesis. For the railway can be properly called neither a private nor a public enterprise; it partakes of the nature of both.

That it is a private enterprise is the more evident. You know that trains are run by a private corporation; that the corporation sells you a ticket, thereby making a contract with you, to transport you from New York to Philadelphia; that when Hiram Rankin's cow is run over, he brings suit against the New York Central &

¹An editorial (1915).

Hudson River Railroad Company; and that your next-door neighbor, James Street, regularly receives what he calls a dividend on the three shares of preferred stock which he owns in the Pennsylvania. So far as its actual business is concerned, it appears to you that a railway company is much like any other corporation.

But if you will study a moment, you will see just as clearly that the business is of a public nature. You remember your grandfather telling you how, when he was a member of the state legislature back in the forties, he helped put through a bill which appropriated state money to help the K. & W. build a line through your part of the state. You never heard of the state helping Simpkins, the corner grocer, in that way. You remember, too, just a few years ago, that when the L. R. & Q. was running the spur out to Dalton, Rufus Lunsford would not sell the narrow strip of land through his farm, which the company wanted to make a part of their right of way. You remember that he said that he was just as much entitled to that land as any private corporation was entitled to its property; and that no private corporation should get a foot of ground belonging to him. Yet you remember how it turned out—that there was a trial; that the lawyers representing the railway said that the company has been clothed with the right of “eminent domain,” and that this gave them the right to take Lunsford’s property, if they needed it, to complete their line, provided they paid him full compensation for it. You know, too, that the railway has no right to refuse to handle your freight, if you offer it to them and if you comply with all the conditions. Perhaps you do not know that when the railway first came, it was thought of as a “rail” way, as a public highway upon which each man should be allowed to run his own cars, just as he drove his own carriage or wagon along the thoroughfare. Of course you see that technical difficulties prevented this from being done and led to a single corporation being granted an exclusive right to run trains over the road. But, in making the grant the state was merely meeting the peculiar situation. It was not surrendering all of its rights to the private corporation. Thus you see that the railway corporation is of a public as well as of a private nature.

171. The Economic Basis of Regulation²

BY I. LEO SHARFMAN

The need of a system of governmental control arises from the economic characteristics of the railway. Most of the important

²Adapted from an unpublished volume entitled *Railway Regulation*, soon to be published by the LaSalle Extension University, 1913.

questions involved in the so-called railroad problem can be traced to the economic character of the railway business. It is necessary therefore, to indicate the general nature of those economic particulars and their most striking consequences.

The monopolistic character of the railway business.—The need of regulation depends chiefly upon the monopolistic character of the railway business. In ordinary industrial enterprises the existence of competition, when free and unrestricted by artificial means, provides an automatic force for the protection of the public. High prices and large profits in a given industry tend to attract additional capital to that industry, which results, in the long run, in a readjustment of charges and a reduction of net returns. In like manner, inefficient service and goods of inferior quality cannot permanently be imposed upon the public because a policy which is clearly detrimental to the interests of the consumer cannot permanently withstand the force of competition. The railway business, on the other hand, tends to be operated under monopolistic conditions. To some extent railways are entirely exempt from the operation of competition. The amount of capital necessary for the construction of a railway is so large and the task of railway building is so substantial that competition is always relatively slow in becoming active. Capitalists will not unite so promptly in building a parallel road because of the large sums that must be risked in the enterprise; and even when they decide to enter upon such an undertaking, the work of construction requires so much time that the appearance of active competition is still further delayed. Moreover, even when the parallel road is built, it actually competes with the original line only at certain points, usually the more important cities, while at intermediate points the lines separate and pass through numerous small communities which have no other railway facilities. At these non-competing points, then, the railways usually enjoy a monopoly of local traffic; and while the number of non-competing points is gradually being reduced by the construction of new steam roads and the multiplication of electric railway lines, doubtless, because of the very nature of the railway, there will always be many localities which, in the absence of government control, will be at the mercy of one transportation agency. In part, therefore, the railway business is clearly monopolistic in character.

The nature of railway competition.—But the railway business tends to be carried on under monopolistic conditions even when competition does exist, because of the character of railway competition. Railway rivalry tends to be abnormally keen and competition ruinous. This, in turn, leads to coöperation in various forms, and

the inevitable result follows that railway competition becomes self-destructive. Competing railway companies, weary of the keen struggle which invariably ensues when competition becomes active, either assent to a truce whereby competition between them is abolished and an agreement is reached for the maintenance of rates, or they continue their warfare until one of the roads is driven to insolvency, and the unsuccessful line, upon reorganization, is taken over by its victorious rival. In either case effective competition is destroyed and monopoly conditions are established. The basis of this ruinous competition is to be found in two fundamental economic characteristics of the railway business:

Joint cost and railway management.—The services of a railway are rendered to a very large degree at joint cost. From one-half to three-quarters of a railway's expenditures must be incurred regardless of the performance of any particular service. In order to conduct transportation at all, a roadbed must be provided, tracks must be laid, terminals must be built. This plant is equally necessary for the transportation of passengers and freight, and express and mail matter. Moreover, it is equally necessary for the transportation of different classes of passengers and different kinds of freight. The expenditures for the fundamental purpose of providing the plant of a railway enterprise create the fixed charges of the business: and these fixed charges, the interest on the capital invested in the construction of the railway, form a part of the cost of every service rendered by that railway. As far as expenditures for plant are concerned, all railway operations are conducted at joint cost. But even the operating expenses are largely joint. The roadbed and equipment must be maintained in a state of reasonable repair and efficiency, and many of the employees and much of the material necessary for conducting transportation must be provided and most of the general administrative expenses must be met, regardless of the amount or the kind of traffic carried by the railway. In other words, a substantial proportion of the operating expenses, like the fixed charges, are constant. It is practically impossible, therefore, for the railway manager to ascertain the exact cost of a given service. Rate making must necessarily involve a large degree of guesswork, though it is true that this guesswork is entrusted to experts. Railway officials have no means of determining with certainty that rates have been reduced to unprofitable limits. Under the stress of keen competition, then, conditions are decidedly favorable to ruinous rate-cutting: and cutthroat competition invariably becomes self-destructive.

Increasing returns and railway policy.—Railway operations are so largely conducted at joint cost because a very large proportion of railway expenditures are fixed or constant. If a railway is built and equipped and is carrying a given amount of traffic, it can usually handle a vastly increased quantity of business at a relatively slight additional expense. Within very wide limits, a given plant and equipment will accommodate a large as well as a small amount of traffic, and the only additional cost involved in handling an increase in traffic will consist in that portion of the operating expenses which varies with the amount and kind of service rendered. In other words, the expenditures of a railway company do not keep pace with the services which it performs; an increase in traffic does not involve a proportionate increase in railway expenditures. It follows, then, that with each increase in the amount of traffic carried, the cost per unit decreases; and the net revenues of a railway increase faster than the growth of its traffic. The railway business is subject to the law of increasing returns: every increase in traffic results in more than a proportionate increase in profits. Railway traffic managers, therefore, work under a powerful incentive to increase the volume of their business, and the competition for traffic is intense. In fact, the passion for traffic becomes the controlling passion of the railway business. Traffic managers consider it their most urgent duty to get business—to get it at the highest rates possible, but in any event to get it. The profitable limit of rate reduction is so uncertain, because railway expenditures are largely joint, and the advantage of extensive traffic is so great, because railway expenditures are largely constant, that there is a natural and compelling tendency on the part of railway officials to reduce rates to whatever point may be necessary in order to attract business from competing lines. Ruinous rate wars follow and competition tends to destroy itself. These conditions lie at the basis of the abnormal character of railway competition which almost invariably leads to railway operation under monopolistic conditions.

Railway competition and discriminatory practices.—The keen rivalry for business leads not merely to rate wars and general rate cuttings, but to discriminatory practices as well. The passion for business is so intense that the traffic manager will resort to any means in order to get it. If the amount of railway traffic can be extended and hence the size of railway profits disproportionately increased by means of granting special privileges in the transportation of one commodity as compared with another, or in the case of one person or locality as compared with competing shippers or markets, railway officials will not hesitate long to resort to these

discriminatory practices. The history of American railways, and of our monopolistic industrial combinations or so-called trusts, divulges no greater evil than the granting of railway discriminations in rates and service for the benefit of one person, locality, or kind of traffic, to the prejudice and disadvantage of rival shippers, places, and industries. The motive or stimulus for these practices lies in the keen desire for additional business, with its disproportionate increase in railway profits. Discrimination has been one of the most baneful as well as one of the most certain effects of railway competition.

Railway discrimination and the public welfare.—The danger as well as the injustice of discriminatory practices cannot be over-emphasized. If our industrial life is to reach its natural and most efficient economic development, there must be freedom of enterprise and fairness of treatment for all persons, all sections, and all undertakings. In a sense, transportation is a fundamental industry, underlying all others; for it is essential to the conduct of all business and goes far towards determining the direction and conditions of industrial activity. The item of transportation, whatever it may be, is one of the elements in all costs, and the outcome of competition between different producers may be largely affected by any divergence in railway rates which must be paid by each of two or more competitors. It follows clearly, then, that the railway officials who make transportation rates exercise a tremendous power. By the soundness of their adjustment of rates and by the degree of fairness with which established rates are observed, the railways may profoundly affect—or absolutely determine even—the prosperity of individuals, of industries, of cities and towns, or of entire sections of the country. By discriminating between competing shippers, they may destroy the business of one and build up that of another, making one man rich and another poor. By stimulating or discouraging a particular class of traffic they may increase or diminish the importance of industries and the extent of production of particular articles of commerce, shaping the direction of industrial activity. By discriminating among cities and towns, they may cause one to grow and another to decay, determining the commercial importance of business centers. By modifying their rate schedules in special instances, they may determine the location of industries, guiding the movements of population and affecting the prosperity and welfare of extensive localities. By these unfair practices the railways also have it within their power to build up industrial monopoly; and the most powerful of the trusts against which the people are now struggling made their first advances towards control of the market through the agency of special favors in the form of railway discriminations.

172. The Futility of Railway Competition³

BY ARTHUR T. HADLEY

We have been taught to regard competition as a natural, if not necessary, condition of all healthful business life. We accept, almost without reserve, the theory that, under open competition, the value of different goods will tend to be proportional to their cost of production. According to this idea, if the supply of a particular kind of goods is short, and the price comes to exceed cost of production, outside capital will be attracted into the business until the supply is sufficiently increased to meet the wants of the market. But as soon as this point is passed, and the price begins to fall below the cost of production, people will refuse to produce at a disadvantage, the supply will be lessened, and the price will rise to its normal figure. If all this be true, competition furnishes a natural regulator of prices, with which it is wicked to interfere.

This may once have been true, but it is not true today, that people find it to their interest to refuse to produce, if price drops below cost. To stop producing often involves the greater loss.

Let us take an example from the railway business. A railroad connects two places not far apart, and carries from one to the other 100,000 tons of freight a month at 25 cents a ton. Of the \$25,000 thus earned, \$10,000 is paid out for the actual expense of running the train and loading and unloading the cars; \$5,000 for repairs and general expenses; the remaining \$10,000 pays the interest on the cost of construction. Only the first of these items varies in proportion to the amount of business done; the interest is a fixed charge, and repairs have to be made with almost equal rapidity, whether the material wears out, rusts out, or washes out. Now suppose a parallel line is built, and in order to secure some of the business offers to take it at 20 cents a ton. The old road must meet the reduction in order not to lose its business, even though the new figure does not leave it a fair profit on the investment; better a moderate profit than none at all. The new road reduces to 15 cents; so does the old road. A 15-cent rate will not pay interest unless there are new business conditions developed by it; but it will pay for repairs which otherwise would be a dead loss. The new road makes still further reduction to 11 cents. This is better than nothing. If you take 11 cents freight that costs you 25 cents to handle, you lose 14 cents on every ton you carry. If you refuse to take it at that rate, you lose 15 cents on every ton you do not carry.

³Adapted from *Railroad Transportation: Its History and Its Laws*, pp. 69-74. Copyright by G. P. Putnam's Sons, 1885.

For your charges for interest and repairs run on, while the other road gets the business.

Under competition such cases are of constant occurrence, and almost as a matter of course when one of the roads is bankrupt. "Business at any price rather than no business at all" is the motto of such a road. It has long ceased to pay interest; it can pay for repairs by receiver's certificates; and it will take freight at almost any price that will pay for the men to load the goods and the coal to burn in the engine. And it is to be observed that when a competing road does not carry the war to this point, it is not a competitive rate. They may agree on a 25-cent rate, thinking it will be a reasonable and paying one; but such a rate is actually determined by combination, even though they take cost of service into account. The theory that when payment falls below cost active competition will cease fails. This is because far below the point where it pays to do your own business it pays to steal business from another man. This influx of new capital will cease; but the fight will go on, either until the old investment and machinery are worn out, or until a pool of some sort is arranged. This is not confined to the railway business. Wherever there are large permanent investments of capital we see the same cause at work in the same way.

There is a marked difference between mercantile competition, such as was considered by those who established the old law of competition, and the competition of railroads or factories, such as we have been considering. In the former case its action is prompt and healthful, and does not go to extremes. If Grocer A sells goods below cost, Grocer B need not follow him, but simply stop selling for a time. For (1) This involves no great present loss to B. When his receipts stop, most of his expenses also stop. (2) It does involve present loss to A. If he is selling below cost, he loses more money, the more business he does. (3) It cannot continue indefinitely. If A returns to paying prices, B can again compete. If A continues to do business at a loss he will become bankrupt, and B will find the field clear again.

But if Railroad A reduces charges on competitive business, Railroad B must follow. (1) It involves a great present loss to stop. If a railroad's business shrinks to almost nothing, a large part of its expenses run on just the same. Interest charges accumulate; office expenses cannot be suddenly contracted; repairs do not stop when traffic sinks; for they are rendered necessary by weather as well as by wear. (2) If B abandons the business, A's reductions of rates will prove no loss. The expense of a large business is proportionately less than that of a small one. A rate which was

below cost on 100,000 tons may be a paying one on 200,000. (3) Profitable or not, A's competition may be kept up indefinitely. The property may go into bankruptcy, but the railroad stays where it is. It only becomes a more reckless and irresponsible competitor.

The competition of different stores finds a natural limit. It brings rates down near to cost of service, and then stops. The competition of railroads or factories finds no such natural limit. Wherever there is a large permanent investment, and large fixed charges, competition brings rates down below cost of service. The competitive business gives no money to pay interest or repairs. Sometimes the money to pay for these things comes out of the pockets of other customers, who do not enjoy the benefit of the competition, and are charged much higher rates. Then we have the worst forms of discrimination. Sometimes the money cannot be obtained from any customers at all. Then we have bankruptcy, ruin to the investor, and—when these things happen on a large scale—a commercial crisis.

B. ASPECTS OF RATE-MAKING

173. Freight Classification⁴

BY WILLIAM Z. RIPLEY

Imagine the *Encyclopaedia Britannica*, a Chicago mail-order catalogue, and a United States protective tariff law blended in a single volume, and you have a freight classification as it exists in the United States at the present time. Such a classification is, first of all, a list of every possible commodity which may move by rail, from Academy or Artist's Board and Accoutrements to Xylophones and Zylonite. In this list one finds Algarovilla, Bagasse, "Pie Crust, Prepared"; Artificial Hams, Cattle Tails and Wombat Skins; Wings, Crutches, Cradles, Baby Jumpers and all; together with Shoo Flies and Grave Vaults. Everything above, on, or under the earth will be found listed in such a volume. To grade justly all these commodities is obviously a task of the utmost nicety. A few of the delicate questions which have puzzled the Interstate Commerce Commission may give some idea of the complexity of the problem. Shall cow peas pay freight as "vegetables, N. O. S., dried or evaporated," or as "fertilizer"—being an active agent in soil regeneration? Are "iron-handled bristle shoe-blackening daubers" machinery or toilet appliances? Are patent medicines distinguishable, for purposes of transportation, from other alcoholic

⁴Adapted from *Railroads, Rates and Regulations*, pp. 297-304. Copyright by Longmans, Green & Co., 1912.

beverages used as tonics? What is the difference, as regards rail carriage, between a percolator and an everyday coffee pot? Are Grandpa's Wonder Soap and Pearline to be put in different classes, according to their uses or their market price? When is a boiler not a boiler? If it be used for heating purposes rather than steam generation, why is it not a stove? What is the difference between raisins and other dried fruits?

The classification of all these articles is a factor of primary importance in the making of freight rates both from a public and private point of view. Its public importance has not been fully appreciated until recently as affecting the general level of railway charges. So little was its significance understood, that supervision and control of classification were not apparently contemplated by the original Act to Regulate Commerce of 1887. The anomaly existed for many years of a grant of power intended to regulate freight rates, which, at the same time, omitted provision for control over a fundamentally important element in their make-up. Control over it has now been assured beyond possibility of dispute.

The freight rate upon a particular commodity between any given points is compounded of two separate and distinct factors: one having to do with the nature of the haul, the other with the nature of the goods themselves. Two distinct publications must be consulted in order to determine the actual charge. Although both of them usually bear the name of the railway and are issued over its signature, they emanate, nevertheless, from entirely different sources. The first of these is known as the Freight Tariff. It specifies rates in cents per hundred pounds for a number of different classes of freight, numerically designated, between all the places upon each line or its connections. But it does not mention specific commodities. The second publication which must be consulted supplies this defect. This is known as the classification. Its function is to group all articles more or less alike in character, so far as they affect transportation cost, or are affected in value by carriage from place to place. These groups correspond to the several numerical classes already named in the freight tariff. Thus dry goods or boots and shoes are designated as first class. It thus appears, as has been said, that a freight rate is made up of two distinct elements equal in importance. The first is the charge corresponding to the distance; the other is the charge as determined by the character of the goods. Consequently, a variation in either one of the two would result in changing the final rate as compounded.

Freight tariffs and classifications are as distinct and independent in source as they are in nature. Tariffs are issued by each railway,

by and for itself alone and upon its sole authority. Classifications, on the other hand, do not originate with particular railways at all; but are issued for them by co-operative bodies, known as classification committees. These committees are composed of representatives from all the carriers operating within certain designated territories. In other words, the United States is apportioned among a number of committees, to each of which is designated, by the carriers concerned, the power over classification. New editions of these classifications are published from time to time as called for by additions or amendments, the latest, of course, superseding all earlier ones. Thirty-seven such issues have already appeared in series in trunk lines and southern territory, while fifty have been put forth in western territory, since the practice was standardized in 1888.

174. State Regulation and Inefficient Service⁵

BY C. O. RUGGLES

Federal regulation, or the lack of it, is not the only hindrance to efficient and sufficient railway service. State laws, also, which have regulated railway operations and service, have prevented an equitable and economical use of railway facilities.

Some states have attempted through legislation to give shippers within their borders an advantage over their competitors in other states. This can be done by low intrastate rates, but it may make such inroads on railroad revenue that a carrier will have insufficient funds to provide adequate facilities. It is said that the increase in rates given by the Intrastate Commerce Commission at the beginning of the European war was practically offset in the state of Pennsylvania by the reduction in rates on coal to tidewater points. Carriers may be prevented from financing their properties to advantage by state regulation of security issues. Complaint was made that the New York Central, which has a total right of way of only 140 miles in the state of Illinois, was taxed \$600,000 by that state as a precedent to its approval of an intended financing; also that Arizona in return for approval of an issue of securities asked that litigation concerning passenger fares be dropped. The Hadley Commission, in commenting upon state regulation of security issues, said they believed the time was near when the difficulties of the present system of dual control and the conflict of state laws would become so manifest that further legislation would be imperative.

State industries may be favored by legislation regulating directly the service which carriers must furnish to shippers. A state that

⁵Adapted from "Railway Service and Regulations," *Quarterly Journal of Economics*, XXXIII, 162-66. Copyright by Harvard University, 1918.

fixes low carload minima may benefit some of its industries but it will absorb more than its fair share of railway equipment. Likewise if one state gives much free time to shippers this means that equipment is detained and shippers in other states are deprived of its use. It is said that no railroad in Minnesota will permit one of its cars loaded with flour to go into the New England states, for there they are permitted four days free time for unloading. This, of course, means delay to Minnesota farmers who are clamoring for cars. It is evident, too, that anything which increases detention of equipment at the same time increases the aggregate supply which is necessary to move a given tonnage. The unsatisfactory character of regulation of demurrage by the separate states brought about the adoption of a uniform demurrage code by the National Association of Railway Commissioners in 1909, and the Interstate Commerce Commission approved this code in the same year. By March, 1915, twenty-four states had adopted the uniform code for intrastate traffic. While in the other twenty-four there was a tendency to conform more nearly to the provisions of the code, the exceptions thereto and the number of special provisions in state codes were important.

Our early railway legislation prohibited discrimination on the part of the railways. It is equally important to eliminate discrimination which results from state regulation. Something more is required than an increase in railway facilities. What is needed is a thoroughgoing control of railway service. This is necessary whether the railroads are restored to private operation, continued under some plan of government operation, or taken over by the government through public ownership.

175. The Futility of Costs as a Basis for Rates⁶

BY SIDNEY CHARLES WILLIAMS

The theory of price-determination according to cost of production is usually interpreted to mean that the price of each unit is determined ultimately by the cost of production of that unit. Where the unit is large and simple, e. g., in the case of a boat constructed entirely by hand by one man, the only items of expense will be the material, the man's labor, and some trifling sum to cover the cost and wear and tear of his tools; and the price he will ask will be determined accordingly. Modern industrial conditions, however, are much more complicated. A factory or workshop will turn out very many units of many different kinds; involving raw material

* ⁶Adapted from *The Economics of Railway Transport*, pp. 189-98. Copyright 1909 by Macmillan & Co.

of varying values, processes of all kinds, simple and elaborate, machinery and labor of many sorts, and each unit of each kind must bear some proportion of those general charges which cannot be attributed to any one class of product, but must be borne by the whole.

Now to what extent is it the case that the price charged for each unit of railway transport is determined by the cost of producing that unit? At first sight it may seem a very simple and satisfactory method of arriving at railway charges. The commodity produced is one—and its cost per unit can be arrived at, and the price to be charged fixed accordingly. But this seeming simplicity is very far from being present in reality. For when we begin to think of concrete instances of railway transport we see that they include commodities very diverse indeed. There are in the first place very many kinds of haulage, pure and simple—for long distances, medium distances, and short distances, with a cost per mile varying according to the distance; there is haulage of all kinds of goods, from coal and limestone to fruit, flowers, dynamite, and cigars, and of all manner of passengers, from a Royal party in a special train, or first-class express traffic to the Scotch moors, to workmen's journeys at 12 miles a penny or half-day seaside trips at similar low charges; there are also many subsidiary services sometimes given, sometimes expressly withheld—cartage, delivery, liability for damage or loss, refrigeration, use of company's wagons, express speed or slow travel, and so forth. In short, we see that the use of the purely abstract word "transport" gives a quite misleading air of simplicity to what is really a congeries of operations of the most diverse kind. Railways in fact produce a far greater variety of commodities than most industrial undertakings.

But it may be urged, this does not demonstrate the impossibility of basing your railway charges on respective costs of production. This may be done in one or other of two ways. The first and most obvious method is to classify your different services and apportion to each the peculiar expenses connected with it. Then take the whole of the remaining expenditure of a general kind and apportion that among the different services according to their respective prime costs. You will now know the expenditure involved by each service, and as you know the extent of this traffic you will be able to fix a fair and reasonable charge which will just give you your expenditure with a reasonable margin of profit.

If the matter is so simple it should be child's work to apply it to the first great division of railway work, that between passenger and goods traffic. The simplest and clearest subdivision of railway

working expenditure is as follows: General Charges, Ways and Works, Rolling-Stock, Traffic Department Expenditure.

Now of all these a good deal is not merely independent of any particular kind of traffic but is independent of traffic altogether. Among such heads of expenditure are directors' fees, the salaries of the managing and legal staff, the rates and taxes paid, the greater part of the cost of maintenance of way and works, and some part of the traffic working expenses. These items clearly cannot be directly connected with the respective amounts of goods or passenger traffic. The cost of passenger and goods locomotives and rolling-stock can, however, be so allocated; so also the cost of their respective train-staffs; and some part of the expenditure of buildings. Indeed, the very variety of methods adopted to secure this allocation themselves testify to the difficulty of the operation; train-mileage has been tried and abandoned, working engine hours are believed in by some, but the only unanimity among experts is as to the caution with which the figures arrived at must be viewed and utilized.

The varying speeds, the different kinds of accommodation, the great variety in the number and complexity of the services rendered, the different sizes of consignments, the different distances for which, the different directions in which, and the different times at which they travel—all these mean some difference in cost; but since this cost is made up of so many countless items, who can undertake to reduce it to a definite schedule of fair prices, however long and complicated? To achieve a result of even useful accuracy when these difficulties are borne in mind, and at the same time it is remembered that the schedule must be simple, uniform, impartial, semi-permanent, and, moreover, must be known before, not after the consignment has been handled—is, it will be recognized, indeed a hopeless task.

But it may be claimed that there is an alternative method with which no such accuracy is expected or desired. All that need be done is to take the number of units of works done, the passenger-miles and ton-miles, and dividing these by the aggregate expenses, so obtain an average figure which will give a working basis for all rates. But even for this less ambitious project there are insuperable difficulties. The average ton-mile will link together such dissimilar units as one ton of coal out of a train load of 800 tons carried, say, 200 miles without a stop and with no auxiliary services, and a ton of cream cheese carried in small consignments over a few miles with many subsidiary services, collection, delivery, packing, weighing, and so forth. The respective rates charged will be as dissimilar as the services rendered. The coal pays a very low rate, but the size, regularity, and easy handling of the traffic make it most acceptable; the

cheese traffic pays a high rate, but not too high in view of the care and work it involves. Its very small and variable dimensions, and the high value of the cheese, make the cost of the transit an appreciable item, besides say the profits of the retail trader, and an addition to the price which the well-to-do consumer willingly if unconsciously pays. Apply such an average figure in defiance of all these differing conditions, and the result will only be to kill the low grade traffic and to let off too lightly the high grade traffic, thereby seriously impairing the prosperity of the railway and ultimately injuring the trading public which needs its services.

↓ 176. Charging What the Traffic Will Bear⁷

BY W. M. ACWORTH

The phrase "charging what the traffic will bear" has, for some not very obvious reason, undoubtedly acquired an ill repute. On the face of it, it surely seems to represent a principle, not of extortion, but of moderation. To charge what the traffic can bear is, in other words, not to charge what the traffic cannot bear. Yet the phrase is commonly understood quite differently. It has been asserted that railway managers claim to estimate for themselves production cost at *A* and selling price at *B*, and to appropriate as railway rate the entire difference. The truth is that, whatever rash statements have been made by individual railway men under peculiar conditions, no railway administration has ever acted on any such principle.

The real meaning of the phrase is that within limits—the supreme limit of what any particular traffic can afford to pay, and the inferior limit of what the railroad can afford to carry it for—railway charges for different categories of traffic are fixed, not according to an estimated cost of service, but roughly on the principle of equality of sacrifice by the payer. So regarded, "what the traffic will bear" is a principle, not of extortion, but of equitable concession to the weaker members of the community. Had railway managers in the past declared that their principle was "tempering the wind to the shorn lamb," their descriptive accuracy would have been great, while their popularity might have been even greater. Somehow the total cost of maintaining and operating the railway has to be paid for; broadly and in the long run, the capital invested in railway construction must be remunerated at the normal rate of interest. Can any system of apportionment of this necessary expenditure be more equitable than

⁷Adapted from *The Elements of Railway Economics*, pp. 75-78. Copyright by the Clarendon Press, Oxford, 1904.

one under which the rich—well-to-do passengers, valuable freight, traffic with the advantage of geographical situation close to the markets, and the like—contribute of their abundance; while the poor—immigrant passengers, bulky articles of small value, traffic that has to travel far to find a market, and so forth—are let off lightly on the ground of their poverty? Translated into railway language the principle means this: the total railway revenue is made up of rates which, in the case of traffic unable to bear a high rate, are so low as to cover hardly more than the actual out-of-pocket expenses; which, in the case of medium-class traffic, cover both out-of-pocket expenses and a proportionate part of the unappropriated cost; and which finally, in the case of high-grade traffic, after covering the traffic's own out-of-pocket expenses, leaves a large and disproportionate surplus available as a contribution toward the unappropriated expenses of the low-class traffic, which such traffic itself could not afford to pay.

This, in principle and in outline, is the system of charging what the traffic can bear. It is the system which is, always has been, and always must be adopted on all railways, whether they be state enterprises or private undertakings. It is a system at once in the interest of the railway, because even the lowest class traffic, by whatever small amount its rates exceed the additional cost of doing the business, contributes to the general expenses of the undertaking; in the interest of the public, because traffic is thereby made possible which could not come into existence at all, if each item of traffic were required to bear, not only its direct expenses, but its full share of all the standing charges; and in the interest of the high-grade traffic, because everything which the low-grade traffic pays beyond its own actual out-of-pocket cost helps to defray the general expenses of the undertaking, which otherwise the high-grade traffic would have to bear unaided.

177. The Rate Theory of the Interstate Commerce Commission^a

BY M. B. HAMMOND

The tendency of the Interstate Commerce Commission's decisions is, on the whole, toward a cost of service theory of rate making. The following is an attempt at the task of so stating a theory of rates as to bring in the various considerations which the Commission has emphasized as factors in rate making, and show how they can be related to the fundamental principle. It is perhaps well to say that nowhere has the Commission undertaken to state such a comprehensive theory of rate making.

^aAdapted from *Railroad Rate Theories of the Interstate Commerce Commission*, pp. 192-95. Copyright by the *Quarterly Journal of Economics* and by Harvard University, 1911.

1. In any system of government-made or government-regulated railway rates, it would seem that this fundamental economic principle should be kept in mind: to perform the service of transporting persons and goods with the least possible expenditure of social energy.

2. One transportation route or one transportation system should never be allowed to take from another route or system, merely as a consequence of competition, traffic which the latter route or system can carry at less expense.

3. Rates should be so adjusted as never to take from a place its natural geographical advantages of location; but natural advantages should not be so construed as to mean monopoly privileges.

4. Railway rates as a whole should just cover costs as a whole, allowing for a normal rate of return on capital actually invested, a normal return for labor of all sorts, and for depreciation, but not for betterments. This would not mean that superior efficiency in railway management was not entitled to reap the rewards of its superiority in the same way it does in the ordinary industrial establishment where competition rules. On the other hand, the rule must not be construed to mean that any investment in a railroad, no-matter how foolishly or recklessly made, is entitled to exact high rates from persons and industries along the line in order to earn current interest rates or dividends. Railway property is not more sacred than other property, nor are railway investors immune from the consequences of their own acts.

5. Each commodity transported should, as far as possible, be made to defray its own share, not only of operating and terminal costs, but also of the fixed costs and dividends. It is possible under modern accounting methods to determine these costs with an approximate degree of accuracy for the principal commodities and classes of traffic. The rates on other commodities may be determined by comparing their ascertainable costs with those of the principal commodities, and to a lesser extent by a comparison of the relative values of the commodities.

6. Differences in distance may be made a test of the reasonableness of differences in rates where other conditions appear to be similar; yet the general rule must be kept in mind that though the aggregate charge should increase as distance increases, the ton-mile rate should decrease.

7. Where the application of none of the above principles seems practicable, competition, which has been conducted in a normal manner over a period of several years, may be assumed to have established a fair relation of rates.

8. A reasonable rate is one which yields a reasonable compensation for the service rendered. If a given rate is reasonable in this sense, an increase in the price of the commodity or in the profits to the producer will not be a valid excuse for increasing the railway rate. The carrier will justly share in the increased prosperity of the producer by securing a larger traffic in this commodity.

The possibility of applying these rules to the business of railway transportation is proved by the fact that the application of every one of them can be shown by illustrations taken from the Commission's decisions. Their consistent application would mean that the railroads would neither tax the industries of the country nor have their own investments sacrificed; they would not build up one place of industry; they would not take from some persons or commodities their proportionate share of the costs of transportation and impose them upon other persons and commodities; and finally they would not by their system of rate making retard industrial progress or have their own development hindered by failing credit or lack of revenue.

C. THE NATURE AND EXTENT OF REGULATION

178. Complaints against the Railroad System⁹

1. That local rates were unreasonably high, compared with through rates.

2. That both local and through rates were unreasonably high at noncompeting points, either from the absence of competition or in consequence of pooling agreements that restricted its operation.

3. That rates were established without apparent regard to the actual cost of the service performed, and are based largely on "what the traffic will bear."

4. That unjustifiable discriminations were constantly made between individuals in the rates charged for like service under similar circumstances.

5. That improper discriminations were made between articles of freight and branches of business of a like character, and between different quantities of the same class of freight.

6. That unreasonable discriminations were made between localities similarly situated.

7. That the effect of the prevailing policy of railroad management was, by an elaborate system of secret special rates, rebates, drawbacks and concessions, to foster monopoly, to enrich favored

⁹Adapted from the *Report of the Senate Select (Cullom) Committee on Interstate Commerce* (1886), I, 180-81.

shippers, and to prevent free competition in many lines of trade in which the item of transportation is an important factor.

8. That such favoritism and secrecy introduced an element of uncertainty into legitimate business that greatly retarded the development of our industries and commerce.

9. That the secret cutting of rates and the sudden fluctuations that constantly took place were demoralizing to all business except that of a purely speculative character, and frequently occasioned great injustice and heavy losses.

10. That, in the absence of national and uniform legislation, the railroads were able, by various devices, to avoid their responsibility as carriers, especially on shipments over more than one road, or from one State to another, and that shippers found great difficulty in recovering damages for loss of property or for injury thereto.

11. That railroads refused to be bound by their own contracts, and arbitrarily collected large sums in the shape of overcharges, in addition to the rates agreed upon at the time of shipment.

12. That railroads often refused to recognize or be responsible for acts of dishonest agents acting under their authority.

13. That the common law failed to afford a remedy for such grievances and that in cases of dispute the shipper was compelled to submit to the decision of the railroad manager or pool commissioner, or run the risk of incurring further losses by greater discriminations.

14. That the differences in the classifications in use in various parts of the country, and sometimes for shipments over the same roads in different directions, were a fruitful source of misunderstandings, and were often made a means of extortion.

15. That a privileged class was created by the granting of passes, and that the cost of the passenger service was largely increased by the extent of this abuse.

16. That the capitalization and bonded indebtedness of the roads largely exceeded the actual cost of their construction or their present value, and that unreasonable rates were charged in the effort to pay dividends on watered stock and interest on bonds improperly issued.

17. That railroad corporations had improperly engaged in lines of business entirely distinct from that of transportation, and that undue advantages had been afforded to business enterprises in which railroad officials were interested.

18. That the management of the railroad business was extravagant and wasteful, and that a heedless tax was imposed upon the shipping and traveling public by the unnecessary expenditure of large sums in the maintenance of a costly force of agents engaged in a reckless strife for competitive business.

179. The Provisions of the Interstate Commerce Act¹⁰

BY LOGAN G. MC PHERSON

The Interstate Commerce Act, taking effect April 5, 1887, practically applied the principles of the common law which inhere in the unlimited jurisdiction of the state courts to the regulation of interstate traffic by the federal courts. It provided:

First—That charges for transportation must be reasonable and just; prohibiting any unjust discrimination by special rates, rebates, or other devices, and any undue or unreasonable preferences;

Second—That there should not be a greater charge for a short haul than for a long haul over the same line in the same direction under substantially similar circumstances and conditions;

Third—Prohibited the pooling of freights and the division of earnings;

Fourth—Prohibited any device to prevent the continuous carriage of freights;

Fifth—Provided for the publicity and filing with the Commissioner of all tariffs;

Sixth—The Interstate Commerce Commission created by the Act is given power to investigate complaints against carriers and to make reports of its investigation in writing;

Seventh—The Interstate Commerce Commission is authorized, in case it finds that the carrier has violated the law, to order it to desist and make reparation for injury done. In case these orders are not obeyed the Commission is empowered to proceed in a summary way to have the Circuit Court of the United States enforce them.

180. The Provisions of the Elkins Act¹¹

The Elkins law, approved February 19, 1903, is an amendment to the Act to Regulate Commerce, and the only important amendment since 1889. The former act is directed against wrongdoing both in the fixing of tariff rates and in the failure to apply them when they have been fixed. Broadly speaking it is the latter class of offenses only which are affected by the recent legislation. Its provisions are designed more effectually to reach infractions of law such as the payment of rebates and kindred practices.

In the first place it makes the railroad corporation itself liable to prosecution in all cases where its officers or agents are liable under the former law. Such officers and agents continue to be liable as

¹⁰Adapted from *The Working of the Railroads*, pp. 248-50. Copyright by Henry Holt & Co., 1907.

¹¹Adapted from the *Seventeenth Annual Report of the Interstate Commerce Commission* (1903), pp. 8-10.

heretofore, but this liability is now extended to the corporation which they represent.

The amended law has abolished the penalty of imprisonment, and the only punishment now provided is the imposition of fines. As the corporation cannot be imprisoned or otherwise punished than by money penalties, it was deemed expedient that no greater punishment be visited upon the offending officer or agent.

Under the former law it was not sufficient to show that a secret and preferential rate had been allowed in a particular case; there had to be further proof of the payment of higher charges by some other person on like and contemporaneous shipments. The result was to render successful prosecutions almost impossible. This defect seems to have been remedied. The new law in most explicit terms makes the published tariff the standard of lawfulness, and any departure therefrom is declared to be a misdemeanor. It is sufficient now to show that a lower rate than that named in the tariff has been accorded.

A further provision of the law makes it lawful to include as parties, in addition to the carrier complained of, all persons interested in or affected by the matters involved in the proceeding. Under the former law carriers only could be made parties defendant; under the amended law shippers may also be included.

Another provision confers jurisdiction upon the circuit courts of the United States to restrain departure from published rates, or "any discriminations forbidden by law," by writ of injunction, or by other appropriate process.

181. The Provisions of the Hepburn Bill¹²

BY LOGAN G. MC PHERSON

The Hepburn Bill took effect on August 28, 1906. The bill provides:

a) That as "common carriers" under the Interstate Commerce Law shall be included companies transporting oil by pipe lines, express companies, sleeping car companies, all switches, tracks, terminal facilities, and that "transportation" under the law shall include all cars regardless of their ownership, and all service in transit.

b) Prohibits the issue of passes, with certain specified exceptions that cover mainly employes, fixing a penalty in case of violation that shall apply to both the giver and the recipient.

¹²Adapted from *The Working of the Railroads*, pp. 155-59. Copyright by Henry Holt & Co., 1907.

c) Makes it unlawful after May 1, 1908, for any railroad company to transport for sale any commodities in which it may have a proprietary interest, except lumber and its products.

d) Provides that a common carrier shall provide, when practicable, and upon reasonable terms, a switch connection for any applicant who shall furnish sufficient business to justify its operation.

e) Makes more explicit the specification as to the filing of tariffs, especially providing for the posting and filing of through tariffs; fixing penalty for violation.

f) Provides that "every person or corporation, whether carrier or shipper, who shall knowingly offer, grant, give or solicit, or accept, or receive rebates, concession, or discrimination, shall be deemed guilty of a misdemeanor, and on conviction thereof shall be punished by a fine of not less than one thousand or more than twenty thousand dollars." Moreover, any person, whether officer or director, agent or *employee*, convicted of such misdemeanor, "shall be liable to imprisonment in the penitentiary for a term not exceeding two years, or both fine and imprisonment in the discretion of the court." In addition, the acceptor of any rebate shall forfeit to the United States three times the amount of the rebate.

g) Provides for the publication of the reports and the decisions of the Commission and their acceptance as evidence.

h) Empowers the Commission, if upon complaint it finds that a rate, or any regulation or practice affecting a rate, is "Unjust or unreasonable, or unjustly discriminatory, or unduly preferential or prejudicial," to determine and prescribe a maximum rate to be charged thereafter and modify the regulation or practice pertaining thereto.

i) Empowers the Commission to award damages against a carrier in favor of a complainant.

j) Provides for forfeit to the United States, in case of neglect to obey an order of the Commission, in the sum of five thousand dollars for each offense, each violation and each day of its continuance to be deemed a separate offense.

k) Empowers the Commission to apply to a circuit court for the enforcement of its order, other than for the payment of money; for the appeal by either party to the Supreme Court of the United States; and that no order of the Commission shall be suspended or restrained, except on hearing, after not less than five days' notice to the Commission.

l) Provides for the rehearing by the Commission, upon application, at its discretion.

m) Authorizes the Commission to require annual reports from all common carriers, that shall contain specified information; to prescribe the form of any and all accounts, records and memoranda to be kept by carriers, making it unlawful for the carriers to keep any other accounts, records, or memoranda than those prescribed and approved by the Commission; provides that all accounts of the carriers shall be open to the inspection of the special agents, or examiners employed by the Commission.

n) Provides that a common carrier issuing a through bill of lading shall be responsible for loss, damage or injury to the property covered thereby upon the lines of any company over which it may pass, leaving it to the line issuing the way-bill to gain recovery from another line upon which the loss, damage, or injury may have occurred.

o) Enlarges the Interstate Commerce Commission from five to seven members, with terms of seven years, increasing the salary from seven thousand five hundred to ten thousand dollars per annum.

182. The Mann-Elkins Act¹³

The Interstate Commerce Bill, as it was reported out of conference on June 14, contains the following provisions:

✓ 1. It creates a court of commerce for the enforcement of orders of the Interstate Commerce Commission.¹⁴

✓ 2. It provides that no railroad shall charge any greater compensation for a shorter than for a longer haul, except in case where such action is authorized after investigation by the Interstate Commerce Commission.

3. It provides that railroads shall be required to state in writing the rate or charge applicable to a described shipment.

4. The Interstate Commerce Commission upon complaint is authorized to determine and prescribe the just and reasonable individual or joint rate as the maximum to be charged and to specify the individual or joint classification, regulation, or practice which it deems to be fair, just, and reasonable.

✓ 5. The commission may suspend the operation of any new rate, classification, regulation, or practice for a period not exceeding 120 days, and extend the time of suspension for a further period of six months, after which time the new rate, classification, regulation or practice will become effective unless the commission orders to the contrary.

¹³Adapted from articles in the *Railway and Engineering Review*, L (1910), 546-47, 587.

¹⁴This court was practically abolished in 1912 by the failure of Congress to make financial provision for its support.

6. The commission may establish through routes and joint classifications and joint rates as to the maximum to be charged whenever the carriers themselves refuse to do so.

7. The right is given to the shipper to designate one of several through routes by which his property shall be transported to its destination.

8. Every failure to obey an order of the commission shall be punished by a fine of \$5,000.

9. Copies of classification, tariffs, etc., furnished to the commission shall be public records.

10. Authority is granted for the appointment of a commission to report upon the advisability of the physical valuation of roads and the control of railroad capitalization.

183. The Adamson Act¹⁵

Two systems controlled in March, 1916, wages of railroad employees; one, an eight-hour standard of work and wages with additional pay for overtime, governing on about 15 per cent of the railroads; the other, a stated mileage task of one hundred miles to be performed during ten hours with extra pay for any excess, in force on about 85 per cent of the roads. The organizations representing the employees of the railroads in that month made a formal demand on the employers that as to all engaged in the movement of trains except passenger trains the 100-mile task be fixed for eight hours, provided that it was not so done as to lower wages and provided that an extra allowance for overtime calculated by the minute as one and one-half times the rate of the regular hour's service be established. The demand made this standard obligatory on the railroads but optional on the employees, as it left the right of the employees to retain their existing system on any particular road if they elected to do so.

The principal terms of the demand were as follows:

"1. In all road service 100 miles or less, eight hours or less will constitute a day, except in passenger service. Miles in excess of 100 will be paid for at the same rate per mile.

"2. On runs of 100 miles or less overtime will begin at the expiration of eight hours.

"3. On runs of over 100 miles overtime will begin when the time on duty exceeds the miles run divided by $12\frac{1}{2}$ miles per hour.

"4. All overtime to be computed on the minute basis and paid for at one and one-half times the pro rata rate.

¹⁵Adapted from the opinion of the court in the case of *Wilson v. New*, 243 U. S. 340-342. On March 19, 1917, the court found the Adamson Act valid.

"5. No one shall receive less for eight hours or 100 miles than they now receive for a minimum day or 100 miles for the class of engines used or for the service performed.

"6. Time will be computed continuously from time required for duty until release from duty and responsibility at end of day or run."¹⁶

The employers refused the demand and the employees through their organizations by concert of action took the steps to call a general strike of all railroad employees throughout the whole country.

The President of the United States invited a conference between the parties. He proposed arbitration. The employers agreed to it and the employees rejected it. The President then suggested the eight-hour standard of work and wages. The employers rejected this and the employees accepted it. Before the disagreement was resolved the representatives of the employees abruptly called a general strike throughout the whole country fixed for an early date. The President, stating his efforts to relieve the situation and pointing out that no resources at law were at his disposal for compulsory arbitration, to save the commercial disaster, the property injury, and the personal suffering of all, not to say starvation, which would be brought to many among the vast body of the people if the strike were not prevented, asked Congress, first, that the eight-hour standard of work and wages be fixed by law, and, second, that an official body be created to observe during a reasonable time the operation of the legislation and that an explicit assurance be given that if the result of such observation established such an increased cost to the employers as justified an increased rate, the power would be given to the Interstate Commerce Commission to authorize it. Congress responded by enacting the statute whose validity we are called upon to consider.

D. VALUATION OF THE RAILROADS

184. Necessity for Valuation of Railway Property¹⁷

The Commission desires to reaffirm its opinion that it would be wise for Congress to make provision for a physical valuation of railway property. The increased responsibilities imposed upon the Commission make continually clearer the importance of an authoritative valuation of railway property, made in a uniform manner for all carriers in all parts of the country.

¹⁶ The language is that of the railroad brotherhoods, not of the Supreme Court of the United States.

¹⁷ Adapted from the *Twenty-second Annual Report of the Interstate Commerce Commission* (1908), pp. 83-85.

In the first place, the Commission has been called upon to pass judgment upon certain rate cases, in which the reasonableness of a general level of rates was brought into question, and for such cases one of the most important considerations is the amount of profit secured to the investment. The actual investment in an enterprise needed for giving the public adequate transportation facilities is entitled to a reasonable return, and no more than a reasonable return, in the form of a constant profit; and a reasonable schedule of rates is one that will produce such a return.

There is a growing tendency on the part of carriers to meet attacks upon their rates by making proof, through their own experts, of the cost of reproducing their physical properties. It is obviously impossible for shippers who are complainants in such cases to meet and rebut such testimony, or even intelligently cross-examine the railroad witness by whom such proof is made. In addition to the large expense of retaining experts competent to make such investigations, the shippers have no access to the property of the carriers or to their records showing the cost of construction and other necessary information. The carriers, on the other hand, having access to the records and property, can use the information compiled from them or not, in any given case, as their interests may require.

A second consideration is the importance which the question of capitalization has assumed in recent years. No one at the present time can say whether railways are undercapitalized or overcapitalized. A valuation adequate to this problem should not stop with the simple statement of an amount; on the contrary, it should analyze the amount ascertained according to the sources from which the value accrues and show the economic character as well as the industrial significance of the several forms of value.

A third argument is found in the present unsatisfactory condition of railway balance sheets. The balance sheet is, perhaps, the most important of the statements that may be drawn from the accounts of corporations; for, if correctly drawn, it contains not only a classified statement of corporate assets and corporate liabilities, but it provides in the balance, that is to say, the "profit and loss," a quick and trustworthy measure of the success that has attended the operation and management of the property. Every balance sheet begins with "cost of property," against which is set a figure which purports to stand for the investment. At present no court, commission, accountant, or financial writer would for a moment consider the present balance sheet statement, purporting to give the "cost of property," even in a remote degree, as a reliable measure either of the money invested or of present value. Thus, at the first touch of critical

analysis, the balance sheets of American railways are found to be inadequate. They are incapable of rendering the service which may rightly be demanded of them. The only possible cure for such a situation is for the government to make an authoritative valuation of railway property, and to provide that the amounts so determined be entered upon the books of the carriers as the accepted measure of capital assets.¹⁸

185. Market Value as a Basis for Rates¹⁹

BY ROBERT H. WHITTEN

The theory that rates should be based upon market value would allow the railroad a return on monopoly value from favorable location. Such a monopoly value is not usually claimed for utilities. It is somewhat similar to the claim that location in the city streets under a franchise can be capitalized for rate valuation purposes. A closer parallel, however, is the case of a water supply plant that has secured the most economical source of supply. It is inconsistent with what is believed to be the governing principle of justice and equity which forms the basis of public service control, that rates should be increased, in order to pay a return on the capitalized value of exclusive location or other monopoly advantage that represents no actual investment. A railroad exercises the right of eminent domain to secure its location and the right of eminent domain can only be lawfully exercised for a public purpose. The location secured by this method for a public purpose cannot justly create a monopoly that will be capitalized against the very public purpose that it was intended to serve—the transportation of freight and passengers.

By the foregoing method rates are based on cost, but not necessarily on the cost of the road itself, but in many cases on the cost of a competing or hypothetical road. Market value has nothing to do with the rate question as thus considered. It is only set up after the rates are in fact determined. To be sure, the theory is that rates are based on a fair return on the market value of the road under reasonable rates. The impossibility of basing reasonable rates on a market value that is itself determined by reasonable rates is apparent. It is a clear case of reasoning in a circle. We have the evident absurdity of requiring the answer to the problem before we can undertake its solution. Market value is not really a part of the process but the

¹⁸An Act of Congress, of March 1, 1913, provided for the valuation of the property of all common carriers in the United States under the direction of the Interstate Commerce Commission.

¹⁹Adapted from *Valuation of Public Service Corporations*, pp. 53-55. Copyright by the author, 1912.

final result. It includes in many cases a capitalization of certain monopoly profits and the monopoly value thus created is set up as justifying the higher rates which have in fact created the monopoly value.

✓ 186. Physical Valuation as the Basis of Rates²⁰

BY SAMUEL O. DUNN

In recent years a new theory of the proper way to ascertain the reasonableness of rates has gained wide acceptance. Many believe that the railways of this country are overcapitalized. They think, therefore, that the return on their capitalization is not a criterion of the reasonableness of their rates. The sole true criterion, they believe, is a "fair return" on the "fair value" of the properties of the railways; a "fair return" is the current rate of interest; and therefore the government should make a valuation of the properties, and in future so regulate rates as to restrict net earnings to the current rate of interest on this valuation.

Many believe that large amounts of net earnings, that legally might have been paid out to the stockholders, have instead been invested in the properties. The properties also contain a large amount of so-called "unearned increment." It is argued that, as railways are public service corporations, their owners are not entitled to receive a return on those parts of their value which have been created by the investment of earnings or by increases in the value of real estate caused by the industrial development of the country.

The owners and managers contend, on the other hand, that in any estimate that may be made of the value of the properties on which a return should be allowed to be earned, every factor entering into their present value should be considered. The net earnings, they say, belong to the stockholders. They may either invest them or pay them out as dividends; and where they have chosen to invest them the value thereby added belongs to them. They also own the real estate used for railway purposes as absolutely—so long as it is used for railway purpose—as the farmer owns his farm; and therefore they have the same right, it is said, to profit by increases in its value.

From a legal standpoint the spokesmen for the railways seem to have the better of the argument. The fifth and fourteenth amendments to the federal Constitution prohibit the nation and the states from taking private property for public use without due process of law and just compensation. When the railway, in the exercise of the power of eminent domain, takes the farmer's land, these provisions

²⁰Adapted from *The American Transportation Question*, pp. 84-95. Copyright by D. Appleton & Co., 1912.

are construed to mean that it must pay him for it—not what it cost him—but its reasonable market value at the time that it is taken. A similar construction of the same provisions as they apply to railways would require that rates should be so regulated as to enable the railways to earn a return on the value of their properties at the time that the rates are being regulated, however the value may have been created. For if the rates were so regulated as to disable the company from earning a return on any part of the value of its property this would be, in effect, to take so much of its value.

Any plan for valuation, other than present value, is indefensible. Cost of reproduction is no exception. It costs on the average from one and one-third to three times as much to get land for railway as for other purposes. This is because its acquisition and use for railway purposes involve damage to adjacent property which must be paid for, and because land that is directly in the path of a coming railway attains a monopoly value. The Railroad Commission of Minnesota, in making its valuation of the railways of that state, held that the appraisal of railway land should be based on the value of adjacent land used for other purposes.

But how, railway men ask, can what the farmer would have to pay for land properly be used as a factor in estimating what it would cost to reproduce the railway? Suppose that adjacent farm land were worth \$100 an acre; that the valuation of an established railway were made on this basis; and that afterward there was built a new and competing line, to which the actual cost of land was \$200 an acre. The competitive rates on competing railways must be the same. If the rates of the older railway were to be so fixed as to restrict it to a return on \$100 an acre, the new railway would have to meet them and might thereby be deprived of the opportunity to earn a return on part of its actual investment. This would tend to discourage new railway construction.

The Railroad Commission of Washington met a situation similar to this when it made its valuation of the railways of that state. The Northern Pacific, many years ago, acquired land for extensive terminals on Puget Sound at a low price. The Harriman lines recently built to Puget Sound, and because of the increase in the value of land had to pay very much more for it. The two systems were competitors, and had to make the same competitive rates. To have based the valuation of the Northern Pacific's land on its original cost, or on its estimated value for other than railway purposes, might have prevented the Harriman lines from earning a fair return on the actual cost of their land. The Commission, therefore, based the valua-

tion of the land of both roads on its present estimated cost of acquisition for railway purposes.

Another important point in estimating the cost of reproducing the physical plants of railways is what deduction should be made for depreciation, and what addition should be made for appreciation, in the value of their various parts. The moment a rail or tie is laid, or a signal tower or station is finished, it begins to deteriorate, owing to use, and the ordinarily insidious, but often violent, ravages of the elements. But while the depreciation is going on there is also appreciation going on. As soon as a new line is finished maintenance forces are put to work, if it is well managed, which limit the depreciation that takes place by making constant repairs and renewals. If a deduction from the cost of reproduction should be made because of depreciation, an addition to it should be made because of appreciation.

According to the widely accepted theory, as soon as an estimate of the cost of physical reproduction is finished, we should go ahead and so regulate rates on a road as to limit each carrier to the same return. But is such an estimate a valuation? Indubitably, other things being equal, a railway having a good physical plant is more valuable than one having a poor one. But, surely, the estimated cost of reproducing a railroad's plant is not the value of the plant; and the value of the plant is not the value of the railroad.

A railway through mountainous country might be more expensive to reproduce than one built through easy prairie country; but the latter's plant may be the more valuable, simply because it is the better machine for rendering transportation.

Again, of two roads having equally good physical plants, that having the larger net earnings is plainly the more valuable. Now, net earnings do not depend solely on rates. They are the margin between gross earnings and operating expenses. Gross earnings depend not only on the rates charged, but on the nature and density of traffic. These, in turn result largely from the energy and skill used by the traffic department of the railway in attracting population to its lines, teaching the farmers how to increase the productivity of the soil, securing the opening of mines and the location of factories and so adjusting rates as to enable producers in the territory to compete successfully in the markets of the entire country and of the world against the producers in other sections and countries. Whether operating expenses shall be high or low in proportion to gross earnings depends on the enterprise and skill used by the management in reducing the grades and eliminating the curvature in track, in enlarging terminals, developing *esprit de corps* among officers and em-

ployees, increasing shop efficiency, augmenting tonnage per car and per train load, and in a hundred other elements of good management. A road whose traffic is large and whose operating expenses are relatively small obviously would have larger net earnings, and, therefore, be a more valuable property than a road on which the traffic is relatively small and the operating expenses relatively high, on any basis of rates whatever that might be applied on both.

Large traffic and relatively low operating expenses are strong evidences of good management. If valuation were based entirely on the cost of physical reproduction, and the net earnings of each road could be, and were, limited to the same amount, the better managed roads would be deprived of the fruits of their good management.

As a matter of fact, such regulation probably would be entirely impracticable; for the competitive rates on different roads must be the same; and, owing to the differences in density of traffic and operating expenses, no two roads charging the same rates could be made to earn the same percentages on their valuations.

187. The "Railway Value" of Land²¹

It is manifest that an attempt to estimate what would be the actual cost of acquiring the right of way if the railroad were not there is to indulge in mere speculation. The railroad has long been established; to it have been linked the activities of agriculture, industry, and trade. Communities have long been dependent upon its service, and their growth and development have been conditioned upon the facilities it has provided. The uses of property in the communities which it serves are to a large degree determined by it. The values of property along its line largely depend upon its existence. It is an integral part of the communal life. The assumption of its non-existence, and at the same time that the values that rest upon it remain unchanged, is impossible and cannot be entertained. The conditions of ownership of the property and the amounts which would have to be paid in acquiring the right of way, supposing the railroad to be removed, are wholly beyond reach of any process of rational determination. The cost-of-reproduction method is of service in ascertaining the present value of the plant, when it is reasonably applied and when the cost of reproducing the property may be ascertained with a proper degree of certainty. But it does not justify the acceptance of results which depend upon mere conjecture.

²¹Adapted from the opinion of the court in *Simpson v. Shepard*, 33 Supreme Court Reporter 761 (1913). This is the well-known "Minnesota Rate Case."

The question is whether, in determining the fair present value of the property of the railroad company as a basis of its charges to the public, it is entitled to a valuation of its right of way not only in excess of the amount invested in it, but also in excess of the market value of contiguous and similarly situated property. For the purpose of making rates, is its land devoted to the public use to be treated (irrespective of improvements) not only as increasing in value by reason of the activities and general prosperity of the community, but as constantly outstripping in this increase all neighboring lands of like character, devoted to other uses? If rates laid by competent authority, state or national, are otherwise just and reasonable, are they to be held to be unconstitutional and void because they do not permit a return upon an increment so calculated?

It is clear that in ascertaining the present value we are not limited to the consideration of the amount of the actual investment. If that has been reckless or improvident, losses may be sustained which the community does not underwrite. As the company may not be protected in its actual investment, if the value of its property be plainly less, so the making of a just return for the use of the property involves the recognition of its fair value if it be more than its cost. The property is held in private ownership, and it is that property, and not the original cost of it, of which the owner may not be deprived without due process of law. But still it is property employed in a public calling, subject to governmental regulation, and while, under the guise of such regulation, it may not be confiscated, it is equally true that there is attached to its use the condition that charges to the public shall not be unreasonable. And where the inquiry is as to the fair value of the property, in order to determine the reasonableness of the return allowed by the rate-making power, it is not admissible to attribute to the property owned by the carriers a speculative increment of value, over the amount invested in it and beyond the value of similar property owned by others, solely by reason of the fact that it is used in the public service. That would be to disregard the essential conditions of the public use, and to make the public use destructive of the public right.

The increase sought for "railway value" in these cases is an increment over all outlays of the carrier and over the values of similar land in the vicinity. It is an increment which cannot be referred to any known criterion, but must rest on a mere expression of judgment which finds no proper test or standard in the transactions of the business world.

Assuming that the company is entitled to a reasonable share in the general prosperity of the communities which it serves, and thus to attribute to its property an increase in value, still the increase so allowed, apart from any improvements it may make, cannot properly extend beyond the fair average of the normal market value of land in the vicinity having a similar character. Otherwise we enter the realm of mere conjecture. We therefore hold that it was error to base the estimates of value of the right of way, yards, and terminals upon the so-called "railway value" of the property. The company would certainly have no ground of complaint if it were allowed a value for these lands equal to the fair average market value of similar land in the vicinity.

E. THE RAILROADS IN WAR TIME

188. The Beginning of Federal Control²²

Probably the most far-reaching action with reference to transportation taken by public authority in a generation or more has been the President's proclamation on December 26, directing the practical transfer of the railroads of the country to government control. The course thus determined upon follows the publication of the findings of the Interstate Commerce Commission on December 5, wherein it is set forth, in reply to the roads' plea for higher rates, that such higher rates would not materially assist their present condition. From the standpoint of the government three principal reasons are seen for the taking over of the lines:

1. The avoidance of obstructions to transportation due to the routing and division of freight, intended to give a fair share to each line in a given territory.
2. The abolition of preferences to given shippers and kinds of freight, and the centralization of control over priority in shipment.
3. The practical termination of rate controversies and labor discussions as between private individuals and the placing of the roads on a semi-military basis.

The railroads themselves have received the announcement of the President's action with much greater equanimity than could have been expected. They undoubtedly see in the step the following advantages:

1. Assurance of a moderate if not generous income in a period of great uncertainty and difficulty, during which they have been

²²Adapted from "Washington Notes," *Journal of Political Economy*, XXVI (1918), 91.

caught between the upper and nether millstones of fixed rates and advancing costs and wages.

2. Termination of the danger that threatened them from the continually maturing obligations which ordinarily they would have little trouble in refinancing, but which, under existing conditions, can scarcely be provided for on any basis.

3. Provision of means for betterment and improvement at a time when such provision can be had practically only through government orders designed to place such requirements ahead of those of private concerns.

Due to recognition of these considerations, investors who had previously regarded the situation with the utmost pessimism have shown much greater confidence and enthusiasm with respect to railroad securities, as is indicated by a rise of from five to ten points in general values.

189. The Policy of the Railroad Administration²⁸

BY WILLIAM G. MC ADOO

The policy of the United States Railroad Administration has been informed and shaped by a desire to accomplish the following purposes, which are named in what I conceive to be the order of their importance:

First, the winning of the war, which includes the prompt movement of the men and the material that the government requires. To this everything else must be subordinated.

Second, the service of the public, which is the purpose for which the railways were built and given the privileges accorded them. This implies the maintenance and improvement of the railroad properties so that adequate transportation facilities will be provided at the lowest cost, the object of the government being to furnish service rather than to make money.

Third, the promotion of a spirit of sympathy and a better understanding between the administration of the railways and their two million employees, as well as their one hundred million patrons, which latter class includes every individual in the nation, since transportation has become a prime and universal necessity of civilized existence.

Fourth, the application of sound economies, including:

The elimination of superfluous expenditures.

The payment of a fair and living wage for services rendered and a just and prompt compensation for injuries received.

²⁸Adapted from "Doings of the United States Railroad Administration." Statement by the Director-General on June 15, 1918.

The purchase of material and equipment at the lowest prices consistent with a reasonable, but not an excessive, profit to the producer.

The adoption of standardized equipment and the introduction of approved devices that will save life and labor.

The routing of freight and passenger traffic with due regard to the fact that a straight line is the shortest distance between two points.

The intensive employment of all equipment and a careful record and scientific study of the results obtained, with a view to determining the comparative efficiency secured.

The development of this policy will, of course, require time. The task to which the Railroad Administration has addressed itself is an immense one. It is as yet too early to judge of the results obtained, but I believe that great progress has been made toward the goal of our ideals. All those who have had a share in this great work, including especially the members of my staff and the officers and employees of the railways, have shown intelligence, public spirit, loyalty, and enthusiasm in dealing with problems that have already been solved and in attacking those that still await solution.

With their continued co-operation I feel assured of a future in which the lessons of our accumulating experience will be effectively employed to humanize the science of railroading and negative the idea that corporations have no souls.

190. The Results of Federal Control²⁴

BY J. MAURICE CLARK

I. *Finance*.—The three most important financial acts of the new Railroad Administration in its first half-year were: (1) the allotment of nearly a billion dollars for betterments and extensions, (2) increases in wages which are expected to amount to \$300,000,000 in 1918, and (3) sweeping increases in freight and passenger rates.

The total amount allowed for capital expenditures for 1918 was \$937,961,318, while proposed outlays amounting to over a third more were eliminated in the final revision. Of this sum, only eighteen millions go to extensions, the rest being fairly evenly divided between the two heads of equipment, and additions and betterments to existing plant. The result should be to enable the roads to cut down their expense of conducting transportation, which have been unduly swollen by the past season's congestion of freight. The funds for these plant outlays come partly from the surpluses of the roads

²⁴Adapted from a selection in Clark, Hamilton and Moulton, *Readings in the Economics of War*, pp. 358-59. Copyright by the University of Chicago, 1918.

themselves and partly from the "revolving fund" of \$500,000,000 appropriated by act of Congress.

The advances in wages were based on the report of a wage commission, with minor changes, and the largest percentage of increase goes to those receiving the lowest wages. The increases are calculated from the wages of December, 1915, and since that time the roads themselves have increased wages more, in some cases, than the McAdoo order increases them, especially in the higher grades of work, where the men are strongly organized. The Adamson eight-hour law has undoubtedly had the effect of raising wages. The advances were made retroactive, taking effect January 1, 1918, though the order was issued May 26. The wage question is of course always open to further adjustment.

The increase in rates and fares was made for the purpose of meeting extraordinary increases in operating expenses, estimated at from \$830,000,000 to \$860,000,000 for 1918, including the rise in wages. Freight rates were ordered increased by 25 per cent, except so far as specific increases were ordered for particular commodities, such as coal, coke, and iron ores. The same order levels state rates up to the interstate basis and cancels all export and import rates, thus putting an end to the practice of charging less for the same haul on goods that are going abroad or coming from abroad than on domestic freight. Passenger fares are increased to 3 cents per mile, or $3\frac{1}{2}$ cents in Pullmans (in addition to the Pullman charge), and commutation fares are raised 10 per cent. These new rates should yield enormous increases in operating revenues over the \$3,824,419,739 earned by the roads in 1917. There is little danger that the roads will suffer serious loss by reason of any shrinkage of traffic resulting from the increased charges. Passenger fares may prove high enough to discourage unnecessary travel, but the administration appears quite ready to take advantage of this opportunity to reduce passenger schedules and free the roads for the more essential—and more profitable—movement of freight.

2. *Operation.*—It was a black time when the federal administration took over the roads, so far as operation was concerned. The lines were congested to the point of breakdown, and blizzards and severe cold (which cuts down the ability of locomotives to make steam) furnished the finishing touches. The traffic became so thoroughly blocked that in the first month of federal control the eastern lines did not move enough freight to pay their operating expenses.

The priority system permitted the yards to fill up with more freight than could be hauled, and one of the first acts of the new administration was to put in its place a policy of embargoing traffic

which it thought it could not move. The measure that the Railroads' War Board had taken to increase operating efficiency were carried farther under the new management. Freight cars were made to carry even heavier loads, cars were more freely ordered from one road to another, and the administration's control of the routing of freight was made absolute, regardless of shippers' preferences or of the earnings of particular roads. The policy is to route freight over the shortest line, or, if that is congested, then over the shortest line that is open. A "train-lot plan" of freight moving has been used with great success, the plan hinging on the willingness of the roads to give up their privilege of getting what traffic they can and moving it when they find it advisable not to keep the shippers waiting any longer, whether the train is full or not. Passenger schedules have been still further cut, and perhaps to better effect than before. Under competitive conditions the temptation is strong to keep the through train, let us say, between Chicago and Minneapolis, which competes with the rival road's through train, and to let some less profitable or less strategic train go. Competitive duplications in passenger schedules were by no means eliminated under the Railroads' War Board, though many trains were taken off relatively unprofitable branch lines where there was no duplication. Freight solicitation has been stopped and the city ticket offices of the different roads are being consolidated, while terminal facilities are being pooled to such an extent that some observers doubt if they can ever be "unscrambled."

One of the most hotly debated moves of the Railroad Administration has been the introduction of standardized cars and engines. The chief arguments in favor of this policy are: (1) It will facilitate the free movement of equipment from one line to another and make possible the economies of pooled equipment without the waste that results if rolling stock has to be sent home for repairs or be repaired in shops not fitted for it. (2) Economies in construction are expected from quantity output. The chief arguments against the plan are: (1) The models will be compromises and less efficient than the best now in use. Locomotives in particular are now adapted to the grades and operating conditions of each particular line far more closely than standardized engines could possibly be. (2) Delay inevitably results when new plans must be prepared instead of utilizing those already available. It appears that many of the plans for standardization have had to be abandoned. Meanwhile the ordering of new engines and cars was delayed for several months, with the result that no new rolling stock can be delivered in 1918 until late in the autumn, and then probably less than 100,000 cars, and this in the face of an annual death toll of approximately 150,000 cars.

One excellent example of the difference between the way things can be done under federal operation and the way they have had to be done under private operation is furnished by the raising of demurrage rates. Demurrage is a charge made to shippers who hold cars unloaded beyond a specified time, and the rate was formerly \$1.00 per day. The roads had long been negotiating with a view to substituting a sliding scale of from \$2.00 to \$5.00 per day, and had finally got permission from the Interstate Commerce Commission and several state commissions. Under war conditions shippers often held cars in spite of demurrage (especially contractors whose pay was to be a percentage above their costs). The Director General was able, without waiting for negotiations and consents, to establish a sliding scale, \$3.00 for the first day, \$4.00 for the second, and so on up to a maximum of \$10.00 for the eighth and subsequent days, while offending shippers were put under embargoes.

Such sweeping action as this or the increase in freight and passenger charges was made possible by three facts: (1) A central authority had taken the place of the "system of checks and balances" between privately owned roads and state and federal commissions with their essential conflict of jurisdiction. This central power could act swiftly, but even so, in certain states, there were "vested interests" in existing differentials between state and interstate rates, and these were strong enough to bring about a modification of the rate order so far as it disturbed these differentials. (2) The responsibility was taken by an agency of government, not by the railroad companies. (3) It could not increase the profits of the companies, since these were fixed under the federal guaranty. These last two facts tended to allay popular opposition, perhaps even more powerfully than the general recognition of the need of "putting up with things" in the emergency of war.

191. The Outcome and the Future²⁵

BY T. W. VAN METRE

There is a general impression that the laws of the country have prevented unity of operation among railways, and a consistent attempt has been made to lay at the door of the government the failure of the carriers to co-operate in the use of their physical equipment. The railroads have failed to "get together" merely because in everything except the fixing of rates the railroad business is required by law to be a highly competitive business.

²⁵Adapted from "Failures and Possibilities in Railroad Regulation," *Annals of the American Academy of Political and Social Science*, LXXXVI, 3-13. Copyright by the American Academy of Political and Social Science, 1918.

It is useless to assume that the repeal of the anti-pooling clause of the Act to Regulate Commerce and the modification of the Sherman Law would by themselves be enough to bring about voluntary railroad unity. These laws have not stood in the way of the operating unity sorely needed at many terminals, and the mere repeal of these acts will not affect this situation. There is no doubt that the formation of pooling agreements would make it easier for the railroad companies to effect the financial arrangements necessary to a plan of united operation under private ownership, if the private owners want such a plan. Hence, if private operation is to be resumed, it is desirable that pooling should be permitted; but the mere toleration of pools and rate agreements will not lead to the voluntary unification of physical facilities so long as railroad managers desire to continue their hold on their particular monopoly advantages.

That some adequate system of railroad regulation can be devised which will permit the railroads to prosper and give efficient service at reasonable rates is not to be doubted, and it is with this goal in view that the next steps in railroad regulation must be taken. The United States is not prepared to adopt a program of government ownership of railroads, and it is to be hoped that once the present crisis is passed the railroads will be returned to private management and a system of regulation be devised under which satisfactory results may be obtained. We certainly shall never return to the policy recently abandoned, which has proved such a lamentable failure, and if government ownership is to be avoided we should begin at once to take stock of failures and successes and to make plans for the future. There are a number of radical changes that can be safely made which would go far toward establishing our regulative system on a fundamentally sound basis and would render easy the working out of the details of a harmonious and constructive policy.

The dual system of regulation as carried on at present inevitably leads to a violation of the fundamental principles upon which regulation is based: that rates shall be just and reasonable, and that they shall not be unduly discriminatory. While it is possible technically to distinguish between interstate and intrastate traffic, there is in an economic sense no real distinction between them. The fact that nine-tenths of railroad traffic is interstate and consequently already under the jurisdiction of the federal commission would seem to indicate that the remaining tenth could be safely entrusted to its authority without any undue increase of its work and with a considerable gain in the efficiency and uniformity of regulation.

The urgent need for a unified system of regulating the issue of securities by railroad corporations and the almost unanimous belief

that this function should be intrusted to federal authority lead one to wonder why it takes so long to secure a law by which this much-needed change may be accomplished. When such a law is enacted it is to be hoped that it will also include provision for some supervision of the expenditure of funds derived from the sale of authorized securities. There is a serious question in many minds as to the wisdom with which the large investments placed in the railroad business in recent years have been used. The wholesale expenditure for the construction of huge passenger terminals at a time when the need for improved freight terminal facilities was probably much more pressing has been looked upon with some disfavor, both on account of the disparity of income from the freight and passenger business and because in many cases the passenger terminals represent costly duplications of effort with results that do not show much progress toward an ultimate solution of the problem of handling a rapidly congesting passenger traffic.

There should be devised some plan by which needed increases in rates can be secured with more expedition and promptness than appears to be possible under present conditions. It is not advisable that the authority of regulative agencies to suspend proposed increases be withdrawn, but it would probably be helpful if the time of rate suspensions were made shorter than is now customary. It is of the utmost importance that the credit of soundly financed railroads be maintained, and this can be done only if methods are devised for meeting promptly sudden emergencies. Rates are now flexible in but one direction, and it is extremely difficult for the carriers to adjust their charges so as to meet the rapid increases in wages and prices of materials.

And finally, as a *sine qua non* of a resumption of private operation, provision must be made for the permanency of the operating unity now going into effect. Two things will have to be done: (1) The carriers must be permitted to enter pooling agreements by means of which the financial adjustments necessary to operating unity may be effected; (2) the carriers must be required to combine their physical facilities wherever such combination will result in improved service.

There is no reason for limiting the unified "continental railway system" to the duration of the war; its proved advantages will be all the more valuable with the return of peace. It must not be expected that the railroad companies will voluntarily enter agreements for unity of operation, though it is highly probable that the present experience with unification under government control will render compulsion less difficult. In the main the joint use of facilities will be confined to terminals, where the wastes of competition have been

greatest. Saving must be accomplished, however, through a more elastic system of routing shipments; the expensive duplication in passenger service may be cut down, and the necessity for private car lines and express companies—parasitic organizations which came into existence solely because of the lack of a unified system of operation—will be entirely eliminated; such companies have performed a real public service in the past, but with unity of railroad operation they will exist for no useful purpose. The chief economy will be effected, however, through the reconstruction and reorganization of terminals; it begins to appear that the time is forever past when the shamefully, wasteful terminal operation, which exists merely as an evidence of the monopolistic power of a strongly entrenched special privilege, will be permitted to stand unchallenged. The willingness or the unwillingness of the carriers to acquiesce in co-operation arrangements which plainly make for increased efficiency will be the deciding factor in the coming controversy over government ownership.

F. THE CRISIS IN RAILWAY POLICY

192. Solution by Experimentation²⁶

BY WILLIAM G. MC ADOO

Upon the efficiency of our transportation machine in America depends in great measure the future prosperity of the nation. Our transportation system must function at the highest point of efficiency and at the lowest possible cost if we are to get our reasonable share of the world's trade and in turn be able to keep a prosperous, contented, and happy population at home.

To attempt to continue federal control under the inadequate provisions of the present act, and for the very brief period that it authorizes would be to multiply our difficulties and to invite failure. On the other hand the return of the railroads to the old competitive conditions will be hurtful alike to the public interest and to the railroads themselves. This course, however, will bring fewer evils than the unsatisfactory federal control provided for by the present act. The railroads were taken over as a war measure. They have been operated during the past year for the paramount purpose of winning the war. I think that it will be generally admitted that the war service has been successfully rendered. I am sure that experience of great value has been gained not only for the public but for the railroads themselves during this brief test.

²⁶Adapted from a letter addressed to Hon. Ellison D. Smith, of the Committee of Interstate Commerce of the United States Senate, on December 11, 1918. Published in *The Commercial and Financial Chronicle*, CVII, 2249.

There is one, and to my mind only one, practical alternative. That is to extend the period of federal control from the one year and nine months provided by the present law to five years, or until January 1, 1924. This extension would take the railroad question out of politics for a reasonable period. It would give composure to railroad officers and employees. It would admit of the preparation and carrying out of a comprehensive program for improvements of the railroads and their terminal facilities which would immediately increase the efficiency of the transportation machine. It would put back of the railroads the credit of the United States during the five-year period, so that these improvements could be successfully financed. It would offer the opportunity to test unified control under proper conditions and the experience thus gained would of itself indicate the permanent solution of the railroad problem.

The American people have a right to this test. They should not be denied it. In my opinion it is the only practical and reasonable method of determining the right solution of this grave economic problem.

I am not interested in proving or disproving the theory of governmental ownership or any other kind of theory. I have formed no opinion myself as to the best disposition of the railway problem because the test has not been sufficient to prove conclusively the right solution of the problem. I believe that a five-year test will give the American people the right answer. An ounce of experience is worth a ton of theory. With the start already made under war conditions it would be a simple matter to complete the test.

There are those who may say that an extension of five years for such a test will mean government ownership. Personally I do not believe it. But, whatever its outcome we should not hesitate. In a democracy like ours, where public opinion must finally control, the plain duty is to take those steps which will fully inform public opinion, so that judgment may be based upon knowledge rather than upon theory. Any test which will illumine the subject so that public opinion may operate upon it intelligently would seem desirable in any circumstances.

Those who may oppose an extension of five years should face the situation squarely and acknowledge that they prefer the immediate return of the railroads to private control under the old conditions without remedial legislation. It is idle to talk of a return to private control under legislation which will cure the defects of the existing laws. There is neither time nor opportunity for such legislation at present. It is impossible and hopeless for the government to attempt the operation of the railroads for twenty-one months after

peace under the present law. Therefore, the country should squarely face the condition that the railroads must promptly go back into private control with all existing legal difficulties unless the only practical alternative, namely, an extension of time, is promptly granted.

193. The Plan of the "Railroads"²⁷

On January 9, a committee representing the railroad executives of the country submitted to the Interstate Commerce Committee of the United States Senate a definite program on the subject of the relations of the government and the railroads. The railroads' plan calls for a return to their private owners of the railroad operating properties in the near future under a system comprising principles which may be summarized as follows:

1. Private ownership, management, and operation of the roads.
2. Transfer of all powers of control over transportation, whether interstate or intrastate, to the national government and the exercise of these functions by it on a definite system.
3. Relief of the Interstate Commerce Commission from administrative duties and re-establishment of its functions as a quasi-judicial body.
4. Establishment of a Department of Transportation headed by a cabinet officer charged with the administrative duties now exercised by the Interstate Commerce Commission as well as with others to be specified.
5. Control of the investment of capital by roads in branches, costly terminals, and like things, by the Secretary of Transportation.
6. Valuation of railroad properties and control of railroad accounting to be exercised by the Interstate Commerce Commission. All other executive and administrative duties to go to the new Department of Transportation.
7. Carriers to be allowed to initiate rates, such rates to be permitted to go into effect by the Secretary of Transportation, or else to be suspended by the same officer and in either case arrangements to be made for the reference of rate controversies to the Interstate Commerce Commission.
8. Principles of rate-making to be laid down in the new legislation subject to the requirements that all rates shall be not only reasonable but adequate to attract the necessary capital to keep up the roads.

²⁷Adapted from "Washington Notes" in *Journal of Political Economy*, XXVII, 129-31. Copyright by the University of Chicago, 1918.

9. Appeal to the Interstate Commerce Commission with reference to rates to be permitted to any party in interest who desires to lodge a complaint.

10. The Interstate Commerce Commission to have power to prescribe minimum as well as maximum rates.

11. Existing rates to be continued in effect until changed by the Interstate Commerce Commission.

12. Carriers to be authorized to complain of the charges of other carriers if they desire.

13. The Interstate Commerce Commission to divide the country into zones, each such zone to be under the direction of a local commission controlling transportation therein.

14. Express rates to be regulated in the same way as freight rates.

15. The Clayton Act to be modified so as not to hamper the transaction of business.

16. The Sherman Act to be modified so as to permit pooling and interline agreements.

17. A Board of Arbitration between railroad capital and labor to be formed under the direction of the Secretary of Transportation.

18. Debt incurred by carriers during the period of federal control to be funded.

19. Government control of railroad security issues.

20. Federal incorporation of all roads.

194. Socializing the Railroads²⁸

BY JOHN A. FITCH

Washington is fairly alive with plans for disposing of the railroads. The proposal involving the most radical departure from the past is that of Glenn E. Plumb, attorney for the railway brotherhoods. This proposal has the approval of the "Big Four," and the ten shop organizations affiliated with the American Federation of Labor, whose members are in railway employ. It is a plan of government ownership with private operation. An operating corporation is proposed whose "sole capital" would consist of "operating ability," or "the skill, industry, and application of every employee from president down to office boy."

This corporation would be authorized to take over and operate the railroads of the country as a single unified system. The corporation would be required to meet all operating expenses and fixed

²⁸Adapted from an article with the foregoing caption in the *Survey*, XLI, 823-25. Copyright, 1919.

charges, and the net income would be divided evenly between the corporation and the government. The corporation's share would be distributed as a "dividend on the pay-roll." Whenever the share received by the government, under this arrangement, exceeds 5 per cent of the gross operating revenue, the Interstate Commerce Commission is to lower rates sufficiently to absorb the entire amount. It is contended that every such reduction will produce a greater volume of traffic and thus increase the volume of net earnings. The reduction in rates it is suggested, would therefore be automatic.

Nothing is said about a depreciation account; probably that is included in "fixed charges." But no surplus would be required for extensions. Under the plan they would be taken care of, in part at least, by special assessments on the localities where the extensions are called for, just as the cost of sidewalks and sewers is generally assessed against the property benefited. Where a community desired an extension and was willing to assume the whole cost, it would be obligatory on the government to provide the extension. Where a community wished to pay only a part of the cost, the extension would be discretionary. Whatever sums are to be expended in this manner by the government are to be raised by taxation. Sums to be expended cannot, through capitalization, become the basis of additional charges against income. Of course the theory back of the idea of special assessments is that the benefit derived would fully justify them, and the property owners would be reimbursed by the rise in real estate values.

Interesting as these features of the brotherhood plan are, they are not the things which set it off in a class by itself. That is done by the basic idea behind it all, that management in its fullest sense is to be in the hands of the railway workers. Next in importance is the fact that the higher officials are included and accepted as workers. Those excluded are the stockholders and financiers. There would be no more stock manipulation under this plan, and the stockholders would have their rights as citizens and bondholders and nothing more.

The board of directors is to consist of fifteen persons, five to be chosen by the appointed officers, five by the classified employees, and five to be appointed by the President of the United States. Thus labor would have a two-thirds majority. There would no longer be any division of interest between officials and rank and file.

Any such arrangement as this raises the question of the adjustment of labor disputes. The brotherhood plan would continue in effect the present wage boards which have functioned with great

success during the war. These boards have been composed of operating officials and employees, with no "neutral" outsiders. The brotherhoods would have a general wage board with subsidiary boards to hear and pass upon all matters of dispute, their decision to be final, except that in case of deadlock the matter would be passed on to the board of directors.

The plan is not sufficiently explicit to enable one to judge of the extent to which the interests of the people as a whole would be served. Certain advantages seem obvious. There would be an end of inflated capitalization. Rates would be based upon actual values and services rendered. Development would be natural and extensions would go where they were needed. It is not clear, however, that rates would be automatically reduced. With the employees the sole judges of their own demands, what would prevent a constant increase in wages that would add to operating expenses and become the basis for a claim for higher rates?

Yet it is possible that the advocates of this plan have discovered the greatest possible antidote to unrest, the greatest possible stimulus to efficiency. Advocates of profit-sharing contend that their ideas, if adopted, would work a revolution in industry. Men would be loyal, more industrious, more in earnest if they were joint owners. Few employers have ever cared to permit the scheme to go far enough for anybody to find out whether the theory was sound.

Here is a plan that goes the whole way. It proposes to give real responsibility to a group of workers which happens incidentally to be as intelligent, resourceful, and capable as can be found anywhere. For groups that are less advanced no method has yet been discovered so efficacious in developing leadership and responsibility as the imposing of confidence, the assigning of duties that call for resourcefulness and decision. Can anyone doubt that what is true of men of lesser ability will not be true of men who have already proved themselves to be men of capacity? Piecework rates, bonus plans, premiums, Christmas presents—all have failed as stimuli to maximum efficiency. It would be interesting to find out what the effect would be if the worker were given a real stake in the job.

195. The Supply of Capital²⁰

BY ALVIN JOHNSON

We do not want the old system restored. This does not mean that we believe private management as it existed before the war was

²⁰Adapted from "Instead of Public Ownership" in the *New Republic*, XIV, 345-47. Copyright, 1918.

corrupt or incompetent, or that public regulation was unintelligent or obtrusive. On the contrary the very facts that the railways were on the whole so efficiently and honestly managed and the Interstate Commerce Commission was so competent and clear-sighted are presumptive evidence against a system that nevertheless grew progressively more inadequate until it broke down altogether under the stress of war. It rested upon a false conception of the nature of the transportation industry and its relation to the state.

Railway men never tire of ex^{pl}ating upon the part the railway plays in sustaining the prosperity of our entire industrial structure. They do not exaggerate the importance of the railway in the national economy. If anything they underestimate it, through modesty or sheer lack of imagination. After our public school system the railway has been by far our most important instrument of national development. It will be a still more important instrument in the development of the coming decades. Would it not then be anomolous to attempt to restore a system of railway operation and control that creates only an accidental relation between the function of the railway in developing the country and the motives leading to their construction and improvement?

The construction of a railway builds up the territory through which it passes. But the traffic resulting from the building up of the community is the roughest and most inadequate measure of the values created by the railway. The community may gain in values many times the cost of a railway, and yet the traffic may remain insufficient to keep the railway company out of the receiver's hands. The private railway companies are in no position to capitalize national and civic gains. All that they can take into account is the apparently inadequate promise of increased revenue from transportation.

But, it may be said, if we had granted the railways more generous transportation rates they could have afforded to undertake improvements that from a private business point of view were uneconomic. No doubt they could have afforded to make such improvements; but private business does not nominally sink money in ventures that are unproductive of profit merely because it can afford to do so. This is natural and proper. If the public wishes capital to be invested for other than private financial reasons, it is incumbent upon the public to devise appropriate institutions for attaining this end.

While public ownership would answer the purpose, it is not the only conceivable system under which it would be possible to make the railways a fully efficient instrument of national development. What is of primary importance is that the public need of railways

should be determined by public authority. Private capital might be called upon to supply the need under a guaranty of earnings, or under some form of partnership arrangement by which the government would supply so much of the capital as could not be assured a pecuniary return. Such an arrangement has recently been outlined by Mr. Theodore P. Shonts, who is qualified to speak by his experience with the analogous subway system of New York.

In essence the plan is very simple. Let a certain sum—say, the present guaranteed net income—be made a preferential charge upon the railway system to satisfy the claims of the present holders of railway securities. Let extensions and improvements be financed by the companies and the government in partnership, the railways furnishing for each project so much capital as can be guaranteed an adequate income, the government furnishing the rest. When the total net income exceeds the preferential claims of the private owners of railway property, let a fair interest be paid on the government investment. If a surplus still appears, let it be divided between the companies and the government in the ratio of their investments. As for control, the supreme authority should be vested in a central board consisting of representatives of the public, of the railway investors, and of railway labor.

Under this plan the government would determine what transportation facilities should be furnished. It would have the final determination of the charges to be made for the use of such facilities. In so far the plan meets the same requirements as would public ownership. The plan lays upon the railways a preferential charge equal to the present guaranteed net income. Public ownership would be burdened with an interest charge on the bonds that would have to be sold to acquire the railways. The difference between the two charges would probably not be great. Under public ownership the two interests represented in control would be the general public and railway labor. Under this plan there would be a third interest, the railway investors. But in the course of the development of our transportation system the government investment would probably increase more rapidly than the private investment, and government control would become more nearly absolute.

There was a time when the controversy over railway ownership was bound to be acrimonious. The present generation is ready for a discussion of the railway problem on a new plane. An adequate transportation system is essential to the national health and prosperity. We cannot get such a system through purely private enterprise, whether subject to government regulation or not. We can get it through public ownership or through some plan of partnership

between the government and private companies. Which shall it be? We shall have to make up our minds soon or slip back into chaos when our twenty-one months of grace have expired.

196. The Requisites of a National Policy⁸⁰

BY JAMES D. MAGEE

The intent of the following paragraphs is to bring together suggestions for our future railway policy.

The railroads should be returned to their owners as soon as needful changes have been made in the methods of regulation. The aim of the changes should be to permit more unified action on the part of the railroads; to set a definite basis for wages; to provide a method for settling wage disputes; and to provide adequate facilities both in the way of extensions and new terminals and with respect to service.

The federal government should be the regulating body. The state commissions should be deprived of all control over rates, classifications, and rules. These are national problems and should be solved on that basis. We admit the early usefulness of the state commissions, the valuation of railroad property for purposes of state taxation, and perhaps a minimum of regulation under the state police power in the interest of health and safety.

The old policy of attempting to check combination should give place to the policy of fostering combination. Probably the best method of procedure would be federal incorporation. The anti-trust laws might be amended by exempting from their provisions railroads with federal charters granted after a certain date. The federal charters should contain provisions for any desired regulation of capitalization, rates, accounts, service, and the terms upon which mergers might be made. In making the combination perhaps it would be necessary to permit the federal corporation to be a holding company; but as soon as possible the corporate structure should be simplified. The minority stockholders should be protected against any attempt to acquire their property at an undervaluation, and the company should be protected against any attempt of the minority to hold up the merger unless their holdings were taken over at an overvaluation. The probable result of such permission to combine would be the formation of a relatively small number of large, strong companies.

In this country we have never had any control over railroad building in the sense of preventing roads from being built. In the early days, when special charters were necessary, the public was interested

⁸⁰Adapted from "What Shall We Do with the Railroads?" *Journal of Political Economy*, XXVII, 348-53. Copyright by the University of Chicago, 1919.

in promoting the building of roads. In later days, under general incorporation laws, there has been practically no restraint upon the building of roads. This policy must come to an end if we adopt the program of public or private monopoly, or of a government guaranty; for we could not permit private individuals to encroach on the monopoly, and it would be ruinous to ask the government to stand ready to guarantee a return on any road that anyone might care to build.

One form of co-operation from which much may be expected is pooling. All the gains which the Railroad Administration has made by eliminating competitive traffic can be obtained by allowing the roads to pool their traffic. It is presumed that the pooling contract will be based on freight or passenger rates which have been sanctioned by public authorities and that the terms of the agreement have been approved by the regulating body, which would have the power to cancel the agreement should it appear for any reason not to promote the public welfare. The railroads allege that great savings can be made if they can send the freight by the line which is least congested or which reaches nearest the point of delivery.

The problem of the general rate level is very complex. The railroad has a relatively large fixed investment, which makes its net earnings fluctuate greatly, as the result of moderate changes in the amount of business. The volume of traffic varies greatly from year to year, though the general trend in the United States has been upward. Obviously a rate system to be fair must be based upon an average of a number of years. The large amount of fixed capital also brings difficulties in connection with the variety of services performed by the railroads. The general expenses are apportioned to the various classes of traffic and to the traffic from the various localities in accordance with the principle of charging what the traffic will bear. There come to be adjustments between different places or different commodities expressed as differentials. The differential may be a fixed sum or a certain percentage above or below the other rate. Any change, such as a general percentage increase in rates, is bound to upset many of these long-established differentials. The railroad thus differs from a public utility furnishing but one or a few products, where rates may be charged easily up or down if the earnings are too small or too large.

The chief need in relation to the adequacy of rates is a definition by Congress of the amount upon which a road is to be allowed a fair return, and which road's valuation is to be taken in case more than one road exists in the territory under discussion. In trunk-line territory, for example, a given rate level might give the Pennsylvania more

than adequate earnings and the Baltimore & Ohio less than adequate earnings. There is no way to escape the fact that a given set of rates will permit different roads to earn varying returns. The present valuation being carried on by the Interstate Commerce Commission does not set a definite value for ratemaking. Congress should decide which one of the many values found is to be the basis, and then the Interstate Commerce Commission should prescribe the accounting methods necessary to keep it up to date.

The wage question involves finding methods to prevent the tie-up of the railroads in case of disagreement and insuring that increases or decreases in wages shall, if other items of expense do not compensate, cause readjustment in rates. Compulsory arbitration might help in the solution of the first problem; but we must remember that in a democratic country there is no effective way to enforce a decision adverse to the employees. If the law based rates on costs, then wages would necessarily be considered by the Interstate Commerce Commission in the adjustment of rates.

To improve service we need adequate rates to make possible the provision of terminals, trackage, and equipment, and the development of standards of service. The Interstate Commerce Commission should be given power to enforce the standards of service. This is a new field. We have developed machinery to prevent discrimination in the distribution of coal cars, but have no definition of adequate supply, and no way to force the roads to furnish such a supply. "Sailing day" plans for l. c. l. freight saves train mileage, but it is doubtful whether they would be considered as offering adequate service. As yet we have no definition of what constitutes adequate service for the various kinds of traffic. The need for such definition is obvious.

The conclusion is that we should return to private operation of railroads, giving them a chance to act unitedly under the direction of the Interstate Commerce Commission, unhampered by state regulation. Wage and rate control should be in the same hands. We wish to get as far as possible the advantages of private initiative along with any savings resulting from united action supervised by public authorities. We should avoid any government guaranty or any saddling upon the public of unprofitable roads.

IX

THE PROBLEM OF CAPITALISTIC MONOPOLY

Corners, rings, patents of monopoly, pools, cartels, trusts, holding companies, "Gary dinners," interlocking directorates, "communities of interest," "gentlemen's agreements," closed shops, codes of "professional ethics"—such terms serve to emphasize the venerable age, the cosmopolitan character, and the motley form of the monopoly problem. It is as old as industrial society and as new as the latest court decision. Other ages have met this "hydra-headed monster"; but they have possessed neither a collection as varied as ours nor such a prize specimen as our "capitalistic monopoly." This for us is the real monopoly. The "corner" is an aspect of speculation. Copyrights and patents exist by grace of the state. The "natural" monopolies of such things as gas, water, and telephone service, and even of forest lands and iron deposits, present much the same aspects and give rise to much the same problems as the railroads. But it is otherwise with "capitalistic monopoly," a phenomenon of modern industrialism, an offshoot of the machine system.

To act with wisdom we must first determine whether so "unnatural" and so obvious a thing is "inevitable." To do this we must carefully consider the "conditions of monopolization." But the institution is new; its life history does not as yet stand revealed in its entirety; our experience is limited; and our view is too close for perspective. Our answer is, therefore, hesitating. However, there seem to be three "groups of forces" which have conspired to produce this phenomenon. First, the machine process must be charged with partial responsibility. It has made large-scale production possible; it has caused industries of tremendous size to operate in a "stag of increasing returns"; it has developed in the corporation an impersonal form of business organization; it has concentrated in the hands of the pecuniarily efficient few huge aggregates of wealth; and in many lines it has reduced the number responsible for production to a small handful who can know each other personally and among whom a group spirit can develop. Even if monopoly and large-scale production are distinct economic phenomena, the problem of "capitalistic monopoly" arises only where wealth is concentrated. Second, the high rate of development in the industrial system cannot completely escape responsibility. New technique is often forced into use before old technique has paid for itself. The development of demand in our constantly expanding market has had the most vacillating course. Under competition and independent action of rival producers the market has experienced alternate dearth and glut. These uncertainties, seriously threatening profits, and even solvency, have been greatly increased by the violent and unpredictable rhythm of the business cycle. Competing producers have thus been compelled "to get together." Third, "artificial" conditions have contributed their influence to the transformation. The "concentration of cash" and the "restriction of credit," the fickleness and special favors of the tariff, and the clever "manipulation" of railway rates have contributed to the general result. Were we able properly to impute responsibility to these various "forces," we should perhaps know what to do. Were responsibility entirely upon those last mentioned, the monopoly problem would resolve itself into such problems as the money trust, the tariff, and railroad rates. Were sole responsibility upon the second, our question would become a mere aspect of the problem of the economic cycle. Only the first directly promises an independent problem. Yet, were the causes wholly artificial, a removal of them would not solve the problem; their influence has been too organic and too wide-reaching for that. There is a

monopoly problem, involving these various factors, yet far more comprehensive than a mere aggregation of them.

Public attention seems to be directed very largely to some few minor aspects of this larger problem. It concerns itself with monopoly price, the use of "unfair competitive methods," and the "power" of big business in politics. Only vaguely is it seen that the institution of monopoly is intimately associated with the stratification of society, the concentration of wealth, the distribution of income, and other aspects of social development. Very little attention is given to the institutional aspects of monopoly; its influence in the determination of the kind of a society we would like to realize; its influence upon the ethics underlying distribution; the effect it is likely to have upon the attempt of class- and group-conscious labor to incorporate their interests into the institutional system; its effect upon the distribution of opportunity, and similar questions. But all these are important aspects of the larger problem.

In our partial attempt to control monopoly we have used very largely the agencies of the state. The law has given the *form* of monopoly organization a merry chase. Perhaps "the complete merger," now the popular style, is a permanent garb rather than a temporary disguise. In that event, our attentions may have been justified in putting the problem in terms in which it can be reached. The application of the Sherman law has doubtless given us the beginning of a "standard of reasonableness" in terms of which the conduct of large business units can be judged, despite the obvious fact that trusts have waxed fat on the invigorating tonic of dissolution. By more sharply defining "unfair competition," the Clayton bill should raise the "plane" of industrial rivalry. The promises of the Trade Commission are vague and indefinite as yet, though they bristle with possibilities.

But as yet the real problem of monopoly has not been solved. What shall we do about it all? It is possible that monopoly is a mere "passing phase" of a larger industrial movement, born of competition, and with a short span of life. It may be that legislation and administration can achieve a "restored" régime of unimpeded competition, even if such a régime never existed. Or it may be that monopoly is "inevitable," and that all we can do is to regulate it before it regulates us.

What we most need is a far-sighted vision and patience carefully to calculate anticipated gains and losses. That "competition is wasteful" does not make out a case for regulated monopoly. The costs of regulation must be balanced against the costs of waste. But regulation once started is likely to be carried to unforeseen and perhaps unwarranted lengths, both in the minuteness of its control and in the number of industries affected. These costs incident to this extension must find a place in our calculation. Our judgment, too, must not be too immediate. Our capacity for development may be quite differently utilized under régimes of monopoly and competition. We know, for example, that an incentive to monopoly has been a desire to escape the rigors of changing technique. Is it not, therefore, more than possible that monopolistic industries will introduce technical improvements much less rapidly than competitive industries? Is it not further possible that new technique may not succeed in getting itself invented? The question must be settled by a long-time calculation of relative gains and sacrifices. But this is not the whole, but only the economic aspect of the larger problem of monopoly. It must be subordinated to the more general question, Are the general social tendencies inherent in regulated monopoly more compatible with our realizable social ideals than those implicit in a system of competition?

This is the beginning of the problem. If our decision favors a restoration of a competitive society, we are face to face with the problem of ways and means. If we decide in favor of regulated monopoly, we must determine, perhaps as we go, the extent to which monopoly shall be recognized, the means and extent of regulation, and the "good of it all." The problem awaits a progressive solution.

A. IS MONOPOLY INEVITABLE?

197. The Perennial Problem of Monopoly

a) *An Early Corner in Grain*¹

And Joseph went out from the presence of Pharaoh, and went throughout all the land of Egypt. And in the seven plenteous years the earth brought forth by handfuls. And he gathered up all the food of the seven years which were in the land of Egypt, and laid up the food in the cities: the food of the field, which was round about every city, laid he up in the same. And Joseph laid up grain as the sand of the sea, very much, until he left off numbering; for it was without number.

And the seven years of plenty, that was in the land of Egypt, came to an end. And the seven years of famine began to come, according as Joseph had said: and there was famine in all lands; but in all the land of Egypt there was bread. And when all the land of Egypt was famished, the people cried to Pharaoh for bread: and Pharaoh said unto all the Egyptians, Go unto Joseph: what he saith unto you, do. And the famine was over all the face of the earth: and Joseph opened all the storehouses, and sold unto the Egyptians; and the famine was sore in the land of Egypt. And all countries came unto Egypt to Joseph to buy grain, because the famine was sore in all the earth.

And there was no bread in all the land; for the famine was very sore, so that the land of Egypt and the land of Canaan fainted by reason of the famine. And Joseph gathered up all the money that was found in the land of Egypt, and in the land of Canaan, for the grain which they bought; and Joseph brought the money into Pharaoh's house. And when the money was all spent in the land of Egypt, and in the land of Canaan, all the Egyptians came unto Joseph, and said, Give us bread: for why should we die in thy presence? for our money faileth. And Joseph said, Give your cattle; and I will give you for your cattle, if money fail. And they brought their cattle unto Joseph; and Joseph gave them bread in exchange for the horses, and for the flocks, and for the herds, and for the asses: and he fed them with bread in exchange for all their cattle for that year. And when the year was ended they came unto him the second year, and said unto him, We will not hide from my lord, how that our money is all spent; and the herds of cattle are my lord's; there is naught left in the sight of my lord, but our bodies and our lands: wherefore should we die before thine eyes, both we and our land?

¹ From Gen. 41:46-49, 53-57; 47:13-22 (800 B.C.).

buy us and our land for bread, and we and our land will be servants unto Pharaoh: and give us seed, that we may live, and not die, and that the land be not desolate.

So Joseph bought all the land of Egypt for Pharaoh; for the Egyptians sold every man his field, because the famine was sore upon them: and the land became Pharaoh's. And as for the people he removed them to the cities from one end of the border of Egypt even to the other end thereof. Only the land of the priests bought he not.

b) *A Vindication of Philosophy*²

BY ARISTOTLE

It would be well also to collect the scattered stories of the ways in which individuals have succeeded in amassing a fortune; for all this is useful to persons who value the art of making money. There is the anecdote of Thales the Milesian and his financial device, which involves a principle of universal application, but is attributed to him on account of his reputation for wisdom. He was reproached for his poverty, which was supposed to show that philosophy was of no use. According to the story, he knew by his skill in the stars while it was yet winter, that there would be a great harvest of olives in the coming year; so, having a little money, he gave deposits for the use of all the olive presses in Chios and Miletus, which he hired at a low price because no one bid against him. When the harvest-time came, and many wanted them all at once and of a sudden, he let them out at any rate which he pleased, and made a quantity of money. Thus he showed the world that philosophers can easily be rich if they like, but that their ambition is of another sort. He is supposed to have given a striking proof of his wisdom, but, as I was saying, his device for getting money is of universal application, and is nothing but the creation of a monopoly. It is an art often practiced by cities when they are in want of money; they make a monopoly of provisions.

c) *An Early Use of Class Price*³

BY JOHN GOWER

Wouldst thou have closer knowledge of Trick the Taverner? Thou shalt know him by his piment, his clerée, and his new ypcras, that help to fatten his purse when our city dames come tripping at dawn to his tavern as readily as to minister or to market. Then doth Trick make good profit; for be sure that they will try every

²From *The Politics*, I, 11:7-10 (357 B.C.); translated by B. Jowett.

³Adapted from *Mirour de l'Omme* (1376-79), ll. 421 ff. Translation in Coulton, *A Mediaeval Garner*, pp. 577-78.

vintage in turn, so it be not mere vinegar. Then will Trick persuade them that they may have Vernage, Greek wine, and Malvesie if they will but wait; the better to cajole them of their money, he will tell them of divers sorts—wines of Crete, Ribole, and Roumania, of Provence, and Monterosso; so he boasteth to sell Riviera and Muscadel from his cellar, but he hath not a third part of all these; he nameth them but for fashion's sake, that he may the better entice these dames to drink. Trust me, he will draw them ten sorts of wine from one barrel, when once he can get them seated in his chairs. Better than any master of magic Trick knoweth all the arts of the wine-trade; all its subtleties and its guile. He is crafty to counterfeit Rhine wine with the French vintage; nay, even such as never grew but by Thames shore, even such will he brisk up and disguise, and baptize it for good Rhenish in the pitcher: so quantily can he disseemble, that no man is so cautious but Trick will trick him in the end.

*d) In the Merrie England of Queen Bess**

BY DAVID HUME

The active reign of Elizabeth had enabled many persons to distinguish themselves in civil or military employments; and the queen, who was not able, from her revenue, to give them any rewards proportional to their services, made extreme use of an expedient employed by her predecessor. She granted her servants and courtiers patents for monopolies, and these patents they sold to others, who were thereby enabled to raise commodities to what price they pleased, and who put invincible restraints upon all commerce, industry, and emulation in the arts. It is astonishing to consider the number and importance of those commodities which were thus assigned over to patentees. Currants, salt, iron, powder, cards, calfskins, fells, pouldavies, ox shin-bones, train-oil; lists of cloth, pot-ashes, aniseeds, vinegar, sea-coals, steel, aqua-vitæ, brushes, pots, bottles, saltpetre, lead, accidences, oil, calamine-stone, oil of blubber, glasses, paper, starch, tin, sulphur, new drapery, pilchards; transportation of iron ordnance, of beer, of leather; importation of Spanish wool, of Irish yarn. These are but a part of the commodities which had been appropriated by monopolists. When this list was read in the House, a member cried, "Is not bread in the number?" "Bread!" said everyone, with astonishment. "Yes, I assure you," replied he, "if affairs go on at this rate, we shall have bread reduced to a monopoly before next Parliament." These monopolists were so exorbitant in their

*Adapted from *The History of England* (1759), IV, chap. xlv.

demands that in some places they raised the price of salt from sixteen pence a bushel to fourteen or fifteen shillings. Such high profits naturally begat intruders upon their commerce; and, in order to secure themselves against encroachment, the patentees were armed with high and arbitrary powers from the council, by which they were enabled to exact money from such as they thought proper to accuse of interfering with their patent.

198. The Perennial Protest against Monopoly

a) *A Proverb About Corners*⁵

The liberal soul shall be made fat;
And he that watereth shall be watered also himself.
He that withholdeth grain, the people shall curse him;
But blessings shall be upon the head of him that selleth it.

b) *The Ethics of Monopoly*⁶

BY MARTIN LUTHER

There are some who buy up altogether the goods or wares of a certain kind in a city or country, so that they alone have such goods in their power, and then fix prices, raise and sell as dear as they will or can. The rule is false and unchristian that anyone sell his goods as dear as he will or can; more abominable still is it that anyone should buy up the goods with this intent. Which same, moreover, imperial and common law forbids and calls monopoly; that is, selfish purchases which are not to be suffered in the land and the city, and princes and rulers should check and punish it if they wish to fulfil their duty. For such merchants act just as if the creatures and goods of God were created and given for them alone, and as though they might take them from others and dispose of them at their fancy.

c) *The Pests of Monopoly*⁷

BY SIR JOHN CULPEPPER

These, like the frogs of Egypt, have gotten possession of our dwellings, and we have scarcely a room free from them. They sip in our cup; they dip in our dish; they sit by our fire; we find them

⁵ Prov. 11:25-26 (350 B.C.).

⁶ Adapted from the address on "Trade and Usury" (1524), printed in the *Open Court*, XI, 27; translated by W. H. Carruth.

⁷ Quoted in Hirst, *Monopolies, Trusts, and Kartells*, p. 20.

in the dye-vat, washing-bowl, and powdering-tub. They share with the butler in his box; they have marked and sealed us from head to foot; they will not bate us a pin.

*d) The Inexpediency of Monopoly**

BY ADAM SMITH

Though some exclusive privileges arise from nature, they are generally the creatures of the civil law. Such are monopolies and all privileges of corporations, which, though they might once be conducive to the interest of the country, are now prejudicial to it. The riches of the country consist in the plenty and cheapness of provisions, but their effect is to make everything dear. When a number of butchers have the sole privilege of selling meat, they may agree to make the price what they please, and we must buy from them whether it be good or bad. Even this privilege is not of advantage to the butchers themselves, because the other trades are also formed into corporations, and if they sell beef dear they must buy bread dear. But the great loss is to the public, to whom all things are rendered less comeatable, and all sorts of work worse done; towns are not well inhabited, and the suburbs are increased.

*e) Monopoly Indefensible**

A private monopoly is indefensible and intolerable. We therefore favor the vigorous enforcement of the criminal as well as the civil law against trusts and trust officials and demand the enactment of such additional legislation as may be necessary to make it impossible for a private monopoly to exist in the United States.

199. Monopoly, the Result of Natural Growth¹⁰

BY GEORGE GUNTON

Many people talk about trusts as if they were a sudden creation, the product of a conspiracy against the public. Nothing could be farther from the truth than this view. The history of trusts is simply the history of the continuous and almost imperceptible tendency in progressive society toward a greater centralization of capital which

*Adapted from *Lectures on Justice, Police, Revenue and Arms* (1763), pp. 129-30; edited by Edwin Cannan.

⁹From the national platform of the Democratic party, adopted at Baltimore, July 3, 1912.

¹⁰Adapted from *Trusts and the Public*, pp. 32-34. Copyright by D. Appleton & Co., 1899.

the most highly developed labor-saving methods of production make necessary. The impeachment of trusts as economic institutions is therefore the impeachment of the concentration of capital, without which, it is needless to say, our great railroad, telegraph, and factory systems would have been impossible. Very few of the industries which use the most approved methods and have contributed most to cheapening the multitude of products can now be conducted with a capital of less than a million dollars; many of them require tens and even hundreds of millions. A hundred or even fifty years ago, a millionaire might have been regarded with as much apprehension as is a hundred-millionaire today; indeed, he would have sustained about the same relation to the productive needs and methods of the community. The truth is that in this case, as in the growth of all social institutions, the new form came because it was necessary. The small English water-wheel factory on the river bank, in the eighteenth century, came because the isolated hand-loom and spinning-wheel did not permit the utilization of the most economic methods after the spinning-jenny and spinning-frame were invented. The steam-driven factory in thickly populated centers came in the first quarter of the nineteenth century because the water-wheel shops were incapable of employing the best methods after the invention of steam and the power-loom had been completed. If these had not been capable of lessening the cost of production and so rendering a general benefit to the community, they could not have succeeded, as there would have been no demand for their products. So, again, by the middle of the century, when machinery had been still further improved, partnership organization of industry became necessary because single individuals were not rich enough to furnish plants sufficiently large to employ profitably the most improved methods.

With the cheapening of products and the increased consumption which followed the use of these successive improvements, and the consequent social advance of the community, a revolution in the methods of distribution and international communication became necessary. Inventions multiplied, which so enlarged the industrial world as to render corporations necessary in order to obtain the best economic results. Modern trusts are but a single step farther in the same direction. They are simply the organization of corporations in the same way that corporations were the organization of individual capitalists.

Trusts, instead of being sudden monopolistic creations that have been sprung on the community by a few designing conspirators, are but the last link in an industrial chain more than a century long; they are no more revolutionary than any one of the previous links,

and less so than some of the earlier ones. Each one of these links in the great chain of industrial evolution came and stayed only because it was more profitable than its predecessors to those who employed it, lessened the cost of production, and served the community more cheaply. Had it not done this, it could not have sustained itself in competition with the old methods.

200. Monopoly, the Result of Artificial Conditions¹¹

BY WOODROW WILSON

Gentlemen say, they have been saying for a long time, that trusts are inevitable. They say that the particular kind of combinations that are now controlling our economic development came into existence naturally and were inevitable; and that, therefore, we have to accept them as unavoidable and administer our development through them. They take the analogy of the railways. The railways were clearly inevitable if we were to have transportation, but railways after they are once built stay put. You can't transfer a railroad at convenience; and you can't shut up one part of it and work another part. It is in the nature of what economists, those tedious persons, call natural monopolies; simply because the circumstances of their use are so stiff that you can't alter them.

I admit the popularity of the theory that the trusts have come about through the natural development of business conditions in the United States, and that it is a mistake to try to oppose the processes by which they have been built up, because those processes belong to the very nature of business in our time, and that therefore the only thing we can do is to accept them as inevitable arrangements and make the best out of it that we can by regulation.

I answer, nevertheless, that this attitude rests upon a confusion of thought. Big business is no doubt to a large extent necessary and natural. The development of business is inevitable, and, let me add, is probably desirable. But that is a very different matter from the development of trusts, because the trusts have not grown. They have been artificially created; they have been put together, not by natural processes, but by the will, the deliberate planning will, of men who were more powerful than their neighbors in the business world, and who wished to make their power secure against competition. The trusts do not belong to the period of infant industries. They are not the products of the time, that old laborious time, when the great continent we live on was undeveloped, the young nation

¹¹Adapted from *The New Freedom*, pp. 163-69. Copyright by Doubleday, Page & Co., 1912.

struggling to find itself and get upon its feet amidst older and more experienced competitors. They belong to a very recent and very sophisticated age, when men knew what they wanted and knew how to get it by the favor of the government.

Did you ever look into the way a trust was made? It is very natural, in one sense, in the same sense in which human greed is natural. If I haven't efficiency enough to beat my rivals, then the thing I am inclined to do is to get together with my rivals and say: "Don't let's cut each other's throats; let's combine and determine prices for ourselves; determine the output, and thereby determine the prices; and dominate and control the market." That is very natural. That has been done ever since freebooting was established. That has been done ever since power was used to establish control. The reason that the masters of combination have sought to shut out competition is that the basis of control under competition is brains and efficiency. I admit that any large corporation built up by the legitimate processes of business, by economy, by efficiency, is natural; and I am not afraid of it, no matter how big it grows. It can stay big only by doing its work more thoroughly than anybody else. And there is a point of bigness where you pass the limit of efficiency and get into the region of clumsiness and unwieldiness. You can make your combine so extensive that you can't digest it into a single system; you can get so many parts that you can't assemble them as you would an effective piece of machinery. The point of efficiency is overstepped in the natural process of development oftentimes, and it has been overstepped many times in the artificial and deliberate formation of trusts.

A trust is formed in this way: a few gentlemen "promote" it—that is to say, they get it up, being given enormous fees for their kindness, which fees are loaded on to the undertaking in the form of securities of one kind or another. The argument of the promoters is, not that every one who comes into the combination can carry on his business more efficiently than he did before; the argument is: we will assign to you as your share in the pool twice, three times, four times, or five times what you could have sold your business for to an individual competitor who would have to run it on an economic and competitive basis. We can afford to buy it at such a figure because we are shutting out competition.

Talk of that as sound business? Talk of that as inevitable? It is based upon nothing except power. It is not based upon efficiency. It is no wonder that the big trusts are not prospering in proportion to such competitors as they still have in such parts of their business as competitors have access to; they are prospering freely only in

those fields to which competition has no access. Read the statistics of the Steel Trust, if you don't believe it. Read the statistics of any trust. They are constantly nervous about competition, and they are constantly buying up new competitors in order to narrow the field. The United States Steel Corporation is gaining in its supremacy in the American market only with regard to the cruder manufactures of iron and steel, but wherever, as in the field of more advanced manufacture of iron and steel, it has important competitors, its portion of the product is not increasing, but is decreasing, and its competitors, where they have a foothold, are often more efficient than it is.

Why? Why, with unlimited capital and innumerable mines and plants everywhere in the United States, can't they beat the other fellows in the market? Partly because they are carrying too much. Partly because they are unwieldy. Their organization is imperfect. They bought up inefficient plants along with efficient, and they have got to carry what they have paid for, even if they have to shut some of the plants up in order to make any interest on the investments; or, rather, not interest on their investments, because that is an incorrect word,—on their alleged capitalization. Here we have a lot of giants staggering along under an almost intolerable weight of artificial burdens, which they have put on their own backs, and constantly looking about lest some little pigmy with a round stone in a sling may come out and slay them.

B. CONDITIONS OF MONOPOLIZATION

201. The Failure of Competition¹²

BY HENRY W. MACROSTY

Modern industry is essentially speculative in character. It has been said, "It is for the prospective, not for the actually existing, demand that a producer has chiefly to provide. Our warehouses and shops overflow with goods that have been produced before being sold, and with a view to their being sold. They have been produced to meet the prospective demand, and to measure that accurately is not in the power of the most able and prudent man."¹³ This statement applies not only to goods for consumption, but also to goods, such as machinery, which are intended to aid production. The community is interested only in the accommodation of the whole supply to the total demand, but it is to the interest of each individual manufacturer to secure for himself as large a share of that demand as

¹²Adapted from *Trusts and the State*, pp. 103-119. Published by E. P. Dutton & Co. and G. Richards & Co., London, 1901.

¹³Mongradien, *The Displacement of Labor and Capital* (1886), p. 25.

possible, without regard to the probability of there being an over-supply. To secure custom he must underbid his competitors; to make the low price profitable he must reduce his expenses of production. There is thus a permanent stimulus to the improvement of organization and to the invention of new processes; but as soon as these advantages are gained they are immediately lost by competition, and the enhanced profits are either dissipated in expenses or handed over to the consumer. The old economists justified competition on this very ground, that the desire for private gain drove capitalists to improve their industry, and then compelled them to part with their profits to the general public, but they arrived at this only by neglecting all the other aspects of the problem.

The aim of trade is to make profits; the object of making profits, according to commercial philosophy, is to make savings. The re-investment of savings in new industrial equipment is a necessary condition to industrial progress. Thus industrial development goes hand in hand with an increase in industrial equipment.

This steady tendency to increase the productive machinery of the country necessarily intensifies competition. But if "competition is the life of trade," it is the death of business. The newcomers, equipped with the newest methods and the latest discoveries, produce more cheaply than their predecessors, and a race for life follows, in the course of which more and more goods at lower prices are thrown on the market. If the low prices stimulate fresh demand, general benefit ensues, but the rate of production can govern consumption only within narrow limits. Owing to the great capacity of modern machinery, the operatives employed by the investment of savings can consume only a very small proportion of their product. An outlet must be found either in the discovery of new markets, in countries yet to be developed, or in increased home consumption. The former involves questions of foreign policy and international competition, and must gradually diminish in importance as a solution. As for the latter, the inequitable distribution of wealth and the permanent maladjustment of purchasing and producing power necessarily create an incalculable disorganization of industry, and profoundly increases the innate inability of the competitive system to balance demand and supply.

In a limited market it is possible for the producer to forecast the probable demand and to estimate the capacity of his competitors to meet it; but in proportion as the markets widen, both these necessary conditions of success, and especially the latter, become more difficult of attainment. A farmer in Essex finds it beyond his power to reckon up the probable produce of a Dakota wheat crop or the

chances of a scarcity in Russia before he decides what acreage he will lay down in corn, and yet his inability may land him in the bankruptcy court. Scarcely less difficult is it for the Sheffield manufacturer to foretell the probability of, say, a raid on rails by the Carnegie combination. What is true of normal conditions of trade holds good with reference to an abnormal demand, and the efforts to meet the latter generally have far-reaching and destructive consequences.

The inability of the capitalist system to control its own productivity must increase with an increase in the complexity of the organization. The influence of machinery on production deserves particular attention. Every invention causes displacement, both of capital and of labor; and while its benefits are distributed over the whole community, its costs must be borne by individual capitalists and laborers. In America the invention of new labor-saving machines proceeds so fast that machinery becomes antiquated before it is worn out, and the workshops are in a constant state of transition. Usually capital suffers less than labor, because of its greater fluidity and its ability to recoup itself from the increased productivity of the inventions. Large businesses suffer less than small, as their powers of adaptation are greater, and therefore small concerns tend to go to the wall. But loss there usually is, and one generation of producers is sometimes ruined for the benefit of posterity.

To sum up,* we see that business under capitalism, working through competition, shows an inherent inability to equate supply to demand, which increases as the market widens. The savings of profits leads to overinvestment in productive appliances, from which follow overproduction, fall in prices, and depression. The depression displaces labor, and the process increases the irregularity of employment. Reduction of profits also compels economies in manufacture and transport, the greater employment of improved machinery, and the invention of new processes. The increased productivity of capital causes a still greater reduction in prices and profits, and increases the tendency toward disorganization. It is from this situation that combination has been adopted as a means of escape.

202. The Incentives to Monopoly¹⁴

BY CHESTER W. WRIGHT

We have in modern capitalistic industry tendencies toward a widening of the market with increased localization and integration

¹⁴Adapted from "The Trust Problem—Prevention versus Alleviation," *Journal of Political Economy*, XX (1912), 578-81.

and a steadily enlarging scale of production accompanied by a growing fierceness of competition. The larger the concerns, the smaller their number, the greater their resources for carrying on a fight, the bigger the prize which goes to the winner, the fiercer becomes the competition and the more excessive its wastes. Add to this the difficulties arising from the small margin of profit, the more complicated and prolonged industrial processes, the wide market, and the large use of fixed capital—and finally add the extra gain which comes from the power of monopoly to extort exorbitant prices, and one understands the forces which are fundamentally responsible for the modern trust movement. The reason for many trusts may be found in more immediate causes, which, for the very reason that they are more immediate and obvious, have often appeared, to the public eye at least, as even more important.

It is doubtless true that a considerable number of trusts owe their origin to the profits which it was expected would accrue to the promoter who undertook the task of organizing the trust. This was especially the case in the promotion which went on during the years 1898 and 1901, when the money market and other conditions were particularly favorable; but it is not likely that we shall soon see a recurrence of such an era. There can be no question, however, that the lax corporation laws, many of which appear to have been especially designed to meet the promoter's needs, did enable him to make certain gains and to dispose of the securities put out at a somewhat higher price than would otherwise have been possible. Still, it must be borne in mind that the more fundamental causes for the growth of trusts were really at the bottom of even these gains.

Most prominent among the second group of more immediate causes for the growth of trusts—those which I call special privileges—are railroad favors, tariff duties, and patent rights. In former years railroad favors of one sort or another were doubtless given to many of the trusts. From time to time announcements have been made that these discriminations had been abolished; but frequently, as some later special investigation or prosecution revealed the facts, it has been found that they still exist. However, the evil is undoubtedly much less frequent than formerly and today is at best but a minor factor. The tariff is probably of more importance as an aid to the trusts, though I am inclined to believe that its influence has been considerably exaggerated. Probably its chief effect is in enabling trusts, most of which would exist in any case, to exact somewhat higher prices for their products than would otherwise be possible. It should be noted, however, that it is the over-protective tariff which offers

the chief incentive for the formation of trusts. It is because the duties are often so much higher than is necessary to maintain the industry that overproduction ensues and the domestic manufacturers are led to combine so as to secure the high profits made possible by the tariff. To enact duties of this character is to do nothing less than to offer a reward for forming a trust. The importance of patent rights as a basis for trusts probably deserves more attention than it has received.

The third group of minor causes for the growth of trusts includes certain methods of competition, notably factor agreements and discriminating prices. Under such agreements the manufacturer or wholesaler may sell his product on condition that the price which he fixes be absolutely maintained, or on condition that the retailer shall not deal in the competing product of any rival, or perhaps that he shall not sell such rival product below a certain price. Any concern putting out a product for which there is a considerable demand can use this system, especially the latter form, against its rivals with tremendous power and effectiveness. The practice of discriminating prices is also a powerful weapon for building up and maintaining monopoly control.

Closely connected with this is the power exercised by control of credit which is sometimes declared to be an important weapon of the trust. On this point it is impossible at present to speak decisively. Information is very difficult to obtain and usually conflicting. There is some reason to believe that a large concern with the close financial alliances which ordinarily accompany it may occasionally find itself in a position where it can control the credit obtainable by a rival at some crucial moment and through the power thus obtained may force that rival to capitulate, often at a heavy loss, as in the case of the Pennsylvania Sugar Refining Company. There may not be a money trust but apparently there are times when the power of centralized control over large masses of capital proves of great advantage to a big corporation.

203. Large-Scale Production and Monopoly¹⁵

BY CHARLES J. BULLOCK

In favor of the proposition that the tendency of large-scale production is to pass over into monopoly, three general lines of argument may be distinguished: (a) the contention that a consolidated enterprise possesses advantages over independent companies in producing

¹⁵Adapted from "Trust Literature: A Survey and a Criticism," *Quarterly Journal of Economics*, XV, 190-210. Copyright, 1901.

and marketing its goods; (b) the claim that mere mass of capital confers powers of destructive warfare so great as to deter possible competition from entering the field; (c) the belief that modern competition between large rival establishments, representing heavy investments of fixed capital, is injurious to the public, ruinous to the producers, and in its final outcome self-destructive. As our discussion proceeds it will become evident to the reader that all of these arguments can be employed, with consistency, only by those who believe that the competitive régime is to be replaced by an era of monopoly.

First in this list is the contention that a consolidated concern is a more efficient agent of production and exchange. Thus it is claimed that trusts, by filling orders from the nearest plant, can effect a great saving in cross-freights. Data upon this question are available in the recent Bulletin of the Department of Labor. Of the forty-one combinations reporting, twenty-seven failed to answer this question, nine claimed a saving from this source, and five stated that there was no gain. Of the nine reporting a saving, the Bulletin states the amount only in three cases; and in two of these the item of cross-freights was combined with other economies, the aggregate sums being \$400,000 and "considerably over \$500,000." This, be it remembered, is the trusts' own showing, and is certainly not an underestimate. The reason for these comparatively small results is not difficult to discover. When the monopolized product is of a bulky sort, the industry is already localized pretty thoroughly before combination takes place; and, since most of the former independent establishments were producing chiefly for their natural local constituencies, the trust can save little in cross-freights. When, however, the product is light, transportation charges become a matter of small moment. In either case the room for saving in cross-freights is not nearly as large as has been represented, while often it does not exist.

Then it is urged that a trust can draw upon all the patented devices of the constituent companies, and employ only those that are most efficient. But advantages accruing from this fact will in most cases prove to be of a temporary nature, as trusts that have tried to base a monopoly upon the control of all available patents have learned in the past, and will learn in the future. Moreover, a simple reform in our patent laws will make the best processes available for all producers for any time that the public finds such a measure to be necessary for protection against monopoly. Here, then, we find no natural law working resistlessly towards combination, but a man-made device which can be regulated as public policy may dictate.

Again, we are told that a trust can produce more cheaply than separate concerns, because all the plants utilized can be run at their full capacity; whereas, under competition, many establishments can be kept in operation but a part of the time. Some observations may be made concerning this claim.

In general, it may be denied that, whenever governmental interference has not produced unhealthy and abnormal conditions, competition has led to such absurdly excessive investments as is commonly assumed. We must concede, however, that under normal conditions some reduction can be made in the number of plants required to supply the market at ordinary times; but this does not dispose of the matter. If a trust is to be prepared for supplying the market promptly in times of rapidly increasing demand, it is necessary that some surplus productive capacity must exist in periods of stationary or decreasing demand; for, as believers in the tendency to monopoly often remind us, many months, or even one or two years, are required for the construction of new plants. When this fact is taken into account, the case will stand as follows: except where the action of government has produced abnormal conditions, the capacity of competing establishments does not exceed the requirements of the market to any such degree as is commonly assumed; even a trust must provide for periods of expanding trade; even then, not all rival establishments suffer seriously from inability to find continuous employment for their plants, so that probably the advantages secured by the trust are of consequence only when the least fortunate or least efficient independent concerns are made the basis of comparison.

Again, we are reminded of advantages in buying materials or selling products. It is urged that a combination can purchase its raw materials more cheaply than separate concerns. No one doubts that a large company can often secure better terms than a small establishment; but it is not so clear that every trust can secure supplies more cheaply than large independent enterprises, unless it is true that all combinations can arbitrarily depress the prices of the materials which they consume. Undoubtedly, this has been done by some of the trusts, although their partisans deny it; but such a saving represents no social gain, and sometimes it may be possible for would-be competitors to profit by the depressed condition of the market for few raw materials.

And, finally, we come to economies in advertising and in soliciting business, where the wastes of competition are certainly serious and the room for improvement correspondingly great. Those who deny the tendency to monopoly generally admit that a trust can have

a material advantage here, while those who affirm the existence of such a tendency evidently realize that their case is strongest at this point. Yet an opportunity for saving in these departments does not always exist, and the extent of the economy is easily exaggerated in other cases. Mr. Nettleton is right when he says: "But to what extent the trust organizers have counted on practically cancelling expenditure for these two items, on the ground that buyers will be obliged to come to the sole manufacturers, they are likely to be surprised. To an extent which few appreciate, the buying public has become accustomed to being reminded of its needs before making purchases. Except in staple and absolutely necessary commodities, demand is largely created and maintained by advertising through periodicals, catalogues, or traveling salesmen. Hence, the trust that expects to save the bulk of this important item must also expect to lose through diminished sales more than the economy represents. This is not theory, but the testimony of leading dealers in many lines."

We must now take into account certain counteracting forces, upon which some writers rest their belief that competition will ultimately prevail. These economists contend, in the first place, that, outside the field of the natural monopolies, the growth of a business enterprise is limited by the fact that companies of a certain size will secure "maximum efficiency" of investment, and that beyond this point concentration brings no increase in productive capacity. This position is based upon the belief that a factory of a certain size will enable machinery to be employed in the most advantageous manner; that a reasonable number of such plants will make possible all needful specialization of production; that allied and subsidiary industries can be, and are, carried on by large independent concerns; and that the cost and difficulties of supervision increase rapidly after a business is enlarged beyond a certain size, especially when it is attempted to unite plants situated in different parts of the country. For this reason, increased output does not decrease the burden of fixed charges after a company attains a certain magnitude; but, on the contrary, new charges arise. Among such new expenses, not the least important are the cost of employing the most skilled legal talent to steer the combination just close enough to the law, the expenses necessary for "legislative" and "educational" purposes, and the outlays for stifling competition or the continual "buying out" of would-be rivals.

It is argued that an established monopoly will suffer actual loss from listless and unprogressive management. As the *New York Journal of Commerce* rightly insists, "It is not to be denied that

such concentrations of management will be subject to countervailing offsets from the absence of the stimulus of competition; from the uncertainty about the management falling into the best possible hands; from the discouragement to invention which always attends monopoly, and from the possibility that the administration may be intrusted to 'friends' rather than to experts." As Professor Clark suggests, an established monopoly, secure in the possession of the markets of a large country "would not need to be forever pulling out its machines and putting in better," so that, as compared with countries where industry is upon a competitive basis, such a combination would fall behind in the struggle for international trade. In ruthlessly and unceasingly displacing expensive machinery with newer and better appliances, American manufacturers have probably led the world; but monopolies will inevitably feel reluctant to continue such an energetic policy of improvement. As combinations obtain a greater age, they will persist in old and established methods; while nepotism and favoritism, tending towards hereditary office-holding will replace the energetic management that some of the trusts now display.

Here we may refer to two of the alleged advantages of trusts. It is said that combinations develop abler management through the opportunity they afford for a specialization of skill upon the part of their officials, and that efficiency is increased by a comparison of the methods and costs of production in the various plants.

When it is contended that the "strength of the trust is that it gives the opportunity for the exercise of these highest qualities of industrial leadership," and that it gives us "a process of natural selection of the very highest order," we may question whether stock speculation and other causes lying outside the sphere of mere productive efficiency have not had more to do with the formation of recent combinations than demonstrated superiority in business management. It may be asserted that the establishment of permanent monopoly will interfere seriously with the future process of selection. It must be remembered that the able leaders now at the head of the successful trusts were developed out of a field which afforded the widest opportunity for creative ability. The supreme qualities requisite for great industrial leadership are not likely to be fostered by a regime which closes each important branch of manufacture to new enterprise, and renders hopeless all competition with a single consolidated company. Will successive generations of bureau chiefs or heads of departments in long-established corporations be able to continue the race of masterful leaders, which freedom in originating

and organizing independent industries has given us in the present age?

The second argument advanced to prove the tendency to monopoly is the claim that mere mass of capital confers such powers of destructive warfare as to deter possible competitors from entering the industry, at least until prices have long been held above the competitive rate. It is said that a large combination can lower prices below the cost of production in any locality where a small rival concern is established, thus driving it out of the field. Without doubt the destructive competition waged by combinations is an important consideration, and it may well enough re-enforce monopoly where other attendant circumstances favor consolidation. But a monopoly based solely upon this power would be, confessedly, a temporary affair; for probably no one would claim that all capitalists would be intimidated permanently by such circumstances.

The final reason for the belief that combinations must ultimately prevail is found in the character of modern competition in these industries which require heavy investments of fixed capital. Under such conditions the difficulty of withdrawing specialized investments and the losses that are entailed by a suspension of production make competition so intense that prices may be forced far below a profitable level without decreasing the output; and industrial depression inevitably follows.

In support of this line of argument, it is said that trusts are beneficial, because they can "exercise a rational control over industry," and "adjust production to consumption." Thus it is believed that commercial crises can be prevented, or, at least, that their worst effects can be avoided. But such arguments overlook the facts that a restriction placed upon production by a trust, especially if this is sufficient to raise prices above the competitive rate, may react injuriously upon other trades; and that monopoly profits, accruing to a small body of capitalists for a long period of time, must constitute a tax upon the body of the people that will affect the distribution of wealth in such a way as to reduce the consuming power of the masses. A reduction in purchasing power thus produced would render excessive the existing investments in staple industries, and produce crises.

Not only is it doubtful whether monopoly is a wise method of regulating industry, but it is certain that the evils of competition are greatly exaggerated in some cases, while in others they are due to unhealthy conditions for which an interference with industrial freedom is responsible. In many other industries where trusts have been formed, the excessive investment of which writers complain was

caused by the undue stimulus given by high protective duties and by the restriction of foreign competition. "Competition is restricted by protective duties in most of the industries where combinations are formed; these duties increase the severity, and perhaps the frequency, of the fluctuations from which business suffers; then trusts, a further restriction of freedom, are advocated as a remedy for the ills caused by the initial interference with individual enterprise; and, finally, in order to regulate the trusts, an elaborate system of public supervision is proposed. Would it not be well to make a genuine trial of competition before condemning it for producing evils which are greatly increased by governmental interference with industrial freedom?

204. Monopoly and Efficiency¹⁶

BY LOUIS D. BRANDEIS

Earnest argument is constantly made in support of monopoly by pointing to the wastefulness of competition. Undoubtedly competition involves some waste. What human activity does not? The wastes of democracy are among the greatest obvious wastes, but we have compensations in democracy which far outweigh that waste and make it more efficient than absolutism. So it is with competition. The margin between that which men naturally do and which they can do is so great that a system which urges men on to action, enterprise and initiative is preferable in spite of the wastes that necessarily attend that process. I say "necessarily" because there have been and are today wastes incidental to competition that are unnecessary. Those are the wastes which attend that competition which does not develop, but kills. Those wastes the law can and should eliminate. It may do so by regulating competition.

It is, of course, true that the unit in business may be too small to be efficient. The larger unit has been a common incident of monopoly. But a unit too small for efficiency is by no means a necessary incident of competition. It is also true that the unit in business may be too large to be efficient, and this is no uncommon incident of monopoly. In every business concern there must be a size-limit of greatest efficiency. What that limit is will differ in different businesses and under varying conditions in the same business. But whatever the business or organization there is a point where it would become too large for efficient and economic management, just as there is a point where it would be too small to be an efficient instrument. The limit of efficient size is exceeded when the disadvantages

¹⁶Adapted from an article in *American Legal News*, XXIV (1913), 8-12.

attendant upon its size outweigh the advantages, when the centrifugal force exceeds the centripetal. Man's work often outruns the capacity of the individual man; and, no matter what the organization, the capacity of an individual man usually determines the success or failure of a particular enterprise, not only financially to the owners, but in service to the community. Organization can do much to make concerns more efficient. Organization can do much to make larger units possible and profitable. But the efficiency even of organization has its bounds; and organization can never supply the combined judgment, initiative, enterprise and authority which must come from the chief executive officers. Nature sets a limit to their possible accomplishment. As the Germans say: "Care is taken that the trees do not scrape the skies."

That mere size does not bring success is illustrated by the records of our industrial history during the past ten years. This record, if examined, will show that:

1. Most of the trusts which did not secure monopolistic positions have failed to show marked success as compared with the independent concerns.

This is true of many existing trusts, for instance, of the Newspaper Trust, the Writing Paper Trust, the Upper Leather Trust, the Sole Leather Trust, the Woolen Trust, the Paper Bag Trust, the International Mercantile Marine; and those which have failed, like the Cordage Trust, the Mucilage Trust, the Flour Trust, should not be forgotten.

2. Most of those trusts which have shown marked success secured monopolistic positions either by controlling the whole business themselves, or by doing so in combination with others. And their success has been due mainly to their ability to fix prices.

This is true, for instance, of the Standard Oil Trust, the Shoe Machinery Trust, the Tobacco Trust, the Steel Trust, the Pullman Car Company.

3. Most of the trusts which did not secure for themselves monopoly in the particular branch of trade, but controlled the situation only through price agreements with competitors have been unable to hold their own share of the market as against the independents.

This is true, for instance, of the Sugar Trust, the Steel Trust, the Rubber Trust.

4. Most of the efficiently managed trusts have found it necessary to limit the size of their own units for production and for distribution.

This is true, for instance, of the Tobacco Trust, the Standard Oil Trust, the Steel Trust.

Lack of efficiency is ordinarily manifested either

1. In rising cost of product,
2. In defective quality of goods produced, or
3. In failure to make positive advances in processes and methods.

The third of these manifestations is the most serious of all. In this respect monopoly works like poison which infects the system for a long time before it is discovered, and yet a poison so potent that the best of management can devise no antidote.

Take the case of the Steel Trust. It inherited through the Carnegie Company the best organization and the most efficient steel makers in the world. It has had since its organization exceptionally able management. It has almost inexhaustible resources. It produces on so large a scale that practically no experimental expense would be unprofitable if it brought the slightest advance in the art. Yet: "We are today something like five years behind Germany in iron and steel metallurgy, and such innovations as are being introduced by our iron and steel manufacturers are most of them merely following the lead set by foreigners years ago."

The Shoe Machinery Trust, the result of combining directly and indirectly more than a hundred different concerns, acquired substantially a monopoly of all the essential machinery used in bottoming boots and shoes. Its energetic managers were conscious of the constant need of improving and developing inventions and spent large sums in efforts to do so. Nevertheless, in the year 1910 they were confronted with a competitor so formidable that the Company felt itself obliged to buy him off, though in violation of the law and at a cost of about \$5,000,000. That competitor, Thomas G. Plant, a shoe manufacturer who had resented the domination of the trust, developed an extensive system of shoe machinery, which is believed to be superior to the Trust's own system, which represents the continuous development of that Company and its predecessors for nearly half a century.

But the efficiency of monopolies, even if established, would not justify their existence unless the community should reap benefit from the efficiency; the experience teaches us that whenever trusts have developed efficiency, their fruits have been absorbed almost wholly by the Trusts themselves. From such efficiency as they have developed the community has gained substantially nothing. For instance:

The Standard Oil Trust, an efficiently managed monopoly, increased the prices of its principal products between 1895 and 1898, and 1903 to 1906 by 46 per cent.

The Tobacco Trust is an efficiently managed monopoly. Between 1899 and 1907 the selling price on smoking tobacco rose from 21.1 cents per pound to 30.1 cents; the profit per pound from 2.8 cents per pound to 9.8 cents. The selling price of plug tobacco rose from 24.9 cents per pound to 30.4 cents; the profit per pound from 1.9 cents to 8.7 cents.

The Steel Trust is a corporation of reputed efficiency. The high prices maintained by it in the industry are matters of common knowledge. In less than ten years it accumulated for its shareholders or paid out as dividends, on stock representing merely water, over \$650,000,000.

C. TYPES OF UNFAIR COMPETITION

205. Competitive Methods in the Tobacco Business¹⁷

BY MEYER JACOBSTEIN

The most familiar as well as the most effective device employed for stifling competition has been that of "local competition"—under-selling a competitor in his own limited market while sustaining prices elsewhere. This device is feasible only for large companies that can make temporary sacrifices for the possibility of greater gains in the future. In the early nineties, to check the sale of "Admiral" cigarettes manufactured by an independent concern, the American Tobacco Company offered its leading brand, "Sweet Caporal," at cost, but only in regions where the Admiral was being successfully marketed. The independent concern surrendered soon afterward. In 1901, the American Tobacco Company was selling "American Beauty" cigarettes for \$1.50 per thousand, less two per cent discount for cash, when the revenue tax alone was \$1.50 per thousand. This was done, however, only where an independent company had succeeded in marketing its most popular brand, the "North Carolina Bright." New York jobbers found that by purchasing their cigarettes from North Carolina jobbers, after paying a slight premium in addition to freight charges, they would pay less for them than by buying direct from the Trust in New York City.

The local competition which helped to build up the Cigarette Trust was practiced in the sale of other products. During the strug-

¹⁷Adapted from *The Tobacco Industry in the United States*, pp. 117-21. Copyright by the author. Published in the Columbia Studies Series, 1907.

gle for the plug tobacco market between the Continental and Liggett and Myers, the former was offering its "Battle Ax" brand for thirteen cents a pound, which was below the cost of production, since the tax was six cents and the raw leaf seven cents a pound. After the independent concern was absorbed, "Battle Ax" rose to thirty cents a pound. By similar methods the trust has won extensive markets in England and Japan.

An instrument frequently employed to make local competition effective is the "Factors' Agreement," whereby the jobber is offered special rebates for agreeing to handle Trust goods exclusively, or to boycott independent brands. While a $2\frac{1}{2}$ per cent commission was allowed jobbers who did not discriminate against Trust goods, $7\frac{1}{2}$ per cent was given to those who handled Trust goods exclusively. Frequently orders from concerns carrying in stock independent goods were not filled. The Factors' Agreement is especially potent in crushing any new competition in markets already controlled by the Trust, for the jobber is loath to risk his assured profits, derived from the sale of established Trust brands, in exchange from the doubtful income from new, independent goods.

A closely allied device is that known as "Brand Imitation." This is a most direct form of destructive competition: it consists of selling at reduced prices brands which are apparently imitations of popular brands of independent manufacture. An instance of this is the marketing at a low figure by the Trust of the "Central Union" smoking tobacco in direct competition with the "Union Leader" of an independent concern. The Trust distributed its "Central Union" free to jobbers in order to ruin the "Union Leader." It was not until the reputation of the independent brand had been seriously damaged that the courts enjoined the Trust from further free distribution. Similarly the Trust marketed at a low price a brand in imitation of the "Qboid" tobacco manufactured by Larus and Brothers. As value of a brand is one of the important assets in the tobacco trade, these methods are very ruinous to independent manufacturers who cannot withstand a persistent attack from the Trust.

Another device is the use of a coupon system, whereby the consumer receives a premium certificate equivalent to a 10 per cent rebate. The coupon system is especially valuable in the tobacco trade because it serves as a substitute for the cutting of prices, the latter being difficult, owing to the existence of conventional and convenient prices, five cents and multiples of five. It is more feasible to give coupons than to reduce a five-cent cigar to four cents. Since much of the tobacco trade is transient, the successful operation of

the premium plan depends upon a wide distribution of stores that offer the coupons, as through a chain of retail agencies like the United Cigar Stores.

206. Competitive Methods in the Cash Register Business¹⁸

BY HENRY ROGERS SEAGER

The specifications in the indictment against the National Cash Register Company, on the basis of which twenty-seven of its officers were found guilty by a jury in February, 1913,¹⁹ indicate in a concrete way the kind of practices in which some of the trusts engaged. They were:

1. It bribed the employees of competitors to reveal the secrets of the competitors' business. By this means it obtained knowledge of prospective buyers of cash registers, of those who had purchased them but had not fully paid for them, of the volume of business being done by the competitors and the places in which it was being done, of inventions and applications for patents by the competitors, and of their financial condition and connections.

2. It bribed the employees of truckmen, express companies, railway, telegraph and telephone companies to reveal information in regard to the shipping of cash registers by competitors, and in regard to the communication between the competitors and their agents and customers.

3. It used its influence with banks and other institutions, sometimes going to the extent of making false statements to injure the credit of competitors in order to prevent their securing money for carrying on their business.

4. It required its sales agents to interfere in every way with the sales of competitive cash registers. The means used included the making of false statements with regard to the registers themselves, as well as false statements reflecting injuriously upon the business, character, and financial credit of its competitors.

5. It offered to sell to prospective purchasers of competitive cash registers the National's machines at much less than the standard prices and upon unusually favorable terms.

¹⁸Adapted from *The Principles of Economics*, pp. 453-55. Copyright by Henry Holt & Co., 1913.

¹⁹In June, 1915, the Supreme Court of the United States refused to sustain an appeal from the decision of a higher federal court reversing the decision of the lower court referred to in the text, and acquitting the officers of the National Cash Register Company. This closes the case against them.—EDITOR.

6. It induced persons who had already ordered competitive cash registers to cancel their orders and purchase from the National, by making further reductions in the price of National registers equivalent to the amount already paid in on the purchase of the competitive cash registers. It induced persons who had already bought other registers to exchange them for the machines of the National, whereupon it exhibited in the windows of stores where National machines were for sale these machines with placards containing the word "Junk," or the words "For Sale at Thirty Cents on the Dollar."

7. It offered for sale to prospective purchasers of other machines cash registers made in imitation of those others at prices even lower than manufacturer's cost. These thus offered for sale were known as "knockers." The manufacture of a particular type of "knocker" was discontinued as soon as its use was no longer necessary.

8. It sometimes offered for sale "knockers" having weak and defective mechanism. This practice had two purposes. It enabled the sales agent to point out the weak and defective mechanism and to claim that the competitive cash register had the same shortcomings. It also enabled him, in case the customer insisted upon purchasing the "knocker," to persuade the customer to purchase a genuine National machine when the "knocker," as was inevitable, speedily broke down.

9. It instructed its sales agents secretly to weaken and injure the internal mechanism and to remove and destroy parts of competitive cash registers in actual use by purchasers whenever they could get their hands on them. The object was evidently to cause the purchaser of a competitive cash register to become dissatisfied and to turn to the National to replace it.

10. It threatened competitors and purchasers of competitors' machines with suits for infringement of the National's patent rights, when no such rights existed, and no such suit was contemplated.

11. In other cases it began suit against competitors and against purchasers of competitive cash registers for infringement when it was well known that there was no ground for such suits and when there was no intention of pressing the suits beyond the point necessary to harass the competitors.

12. It organized cash register manufacturing concerns and sales concerns ostensibly as competitors of itself, but in fact as convenient instruments for gaining the confidence and obtaining the secrets of competitors.

13. It induced, by offers of largely increased compensation, the agents and employees of competitors to leave the employment of the competitors to enter that of the National.

14. It applied for patents upon the cash registers of competitors and upon improvements upon those cash registers merely for the purpose of harassing the competitors by interference suits and threats to institute such suits.

207. The "Tieing" Agreement²⁰

BY W. H. S. STEVENS

Perhaps the most interesting of any of the methods of unfair competition is the requirement that, in order to obtain certain articles, a concern shall lease, sell, purchase, or use certain other articles. The successful imposition of such requirements is usually most destructive to competition; and not infrequently it may be suppressed altogether. Though conditions of this character show variety, they may be discussed under three heads:

1. The purchase or lease of articles upon which the patents have expired, as a condition of obtaining patented articles.

The "tieing" clauses in the leases of the United Shoe Machinery Company furnish an example of this: A "tieing" clause may be described as a provision that a given machine must be used in conjunction with another or other machines. Sometimes the Shoe Machinery Company leases together two patented articles. In certain other cases the leases have tied to patented machines others upon which the patents have expired. The effect of the latter type of clause was described by a witness before a congressional committee: "At the present time a very large proportion of the important basic patents have expired, and but for the restrictions imposed upon us by their leasing system we should today be exercising our undoubted right to use, without royalty, a large part of the machinery now employed."

The Crown Cork and Seal Company, of Baltimore, manufactures more tin caps for bottles than does any other concern in the United States. The same concern also controls patents upon a certain device known as the Jumbo capping machine. None of the machines is sold. They are leased to brewing and bottling establishments under agreements which provide that the "said machines shall be used only in connection with Crown corks purchased by the lessee

²⁰Adapted from "Unfair Competition," *Political Science Quarterly*, XXIX, 291-99. Copyright, 1914.

directly from the lessor." The patents on the caps expired years ago. The lease attempts to compel bottlers to purchase all caps from the Crown Cork and Seal Company.

The theory which underlies the grant of a monopoly in a patent is that human progress is promoted by the gift to inventors for a term of years of the exclusive property in their inventions. At the end of the period it is intended, however, that the inventions shall become the property of the public. Theoretically any concern may begin the production of an article previously patented as soon as the term of the patent expires. Actually it may be unable to do so. Conditional requirements may so destroy the market that even if the goods are produced there would be no customers to purchase. This precise situation seems to have developed through the "tying" clauses of the Shoe Machinery Company applying to patents.

2. The use of certain patented articles as a condition of obtaining other patented articles.

The contracts of the Shoe Machinery Company require that a given patented machine must be used in conjunction with another patented machine. Under free competition the relative productive efficiency of various machines produced by various concerns would determine to a nicety the reward belonging to each patentee. As it is, a machine more efficient than the United's machine for the work it is designed to perform might have no market and bring in no royalties to its patentee. A similar case is that of the Motion Picture Patents Company, which, by virtue of its film control, has endeavored to compel the use of motion pictures containing one or more of the patents which it controls.

3. The purchasing, selling, or handling of a certain article or line of articles as the condition of the purchase or handling of another article or line of articles.

The Commissioner of Corporations in his report on the International Harvester Company has used the term "full-line forcing" to describe "the practice of requiring dealers to order new lines as a condition of retaining the agency for some brand of the company's harvesting machines."

A restriction of similar character is charged by the government in its suit against the American Coal Products and Barrett Manufacturing companies. These concerns are supposed to have a very substantial control of the pitch made from coal tar. Some purchasers and users of roofing materials have been required to buy one ton of felt to every two tons of pitch.

208. Monopoly Control of Cost Goods²¹

BY W. H. S. STEVENS

Attempts to acquire the control of the machinery necessary to the manufacture of a particular line of goods are by no means unknown. Following its organization in 1890 the old American Tobacco Company, by securing and maintaining for some time the exclusive control of the most successful cigarette machinery, was enabled to strengthen its dominant position in the business. At the time of its organization it acquired control of the Allison and the Emery machines, the patents of which belonged to firms entering the new combination. Soon afterward it made a contract for the exclusive use and control of the Bonsack machines. Thus it acquired control of the very best machines used in the production of cigarettes.

In 1913 the government brought suit against the American Can Company. That concern was charged with acquiring control of the principal can-making machinery plants of the United States, together with most of the valuable patents for making that machinery. In some cases this result was accomplished through long-term contracts with patentees for controlling the disposition of the machinery manufactured under their patents; in others by the purchase of licenses which the owners of the patents had issued to the manufacturers of cans; in still others by obtaining contracts to sell such machinery to other parties.

Somewhat different are cases in which control is acquired of the articles or materials which enter into the manufacturing process. The greater part of the supply of raw paper used in the manufacture of photographic papers throughout the world is said to be in the hands of the General Paper Company of Germany. Prior to 1906, when the control of this company was almost complete, the General Aristo Company, which is controlled by the Eastman Kodak Company, is alleged to have contracted to purchase the entire supply of raw paper exported by the General Paper Company to the United States. This contract, it is claimed, was continued from 1906 to 1910. Testimony before the Industrial Commission is to the effect that the Photographic Supplies Combination first secured control of raw paper imported from Germany about the year 1899.

The government has charged the Aluminum Company of America with endeavoring to obtain such a control of the bauxite properties of the United States as would prevent anyone but itself from

²¹Adapted from "Unfair Competition," *Political Science Quarterly*, XXIX, 469-75. Copyright, 1914.

producing metal aluminum. Prior to 1905, the Aluminum Company of America possessed valuable bauxite properties, yet it did not approach control of even 50 per cent of the total bauxite supply of the United States. In that year, however, the company through the General Chemical Company acquired the capital stock of the General Bauxite Company. As part consideration for this contract, the General Chemical Company agreed that it would not use or sell bauxite sold to it by the General Bauxite Company for conversion into metal aluminum, but would use it solely for the manufacture of alum, alum salts, alumina sulphate, and similar products. In 1909 a contract was made with the Norton Chemical Company for the purchase of the bauxite properties of the Republic Mining and Manufacturing Company, whose capital stock was owned by the Norton company. In considering these contracts made by the Aluminum Company of America, it should be borne in mind that this organization is alleged to control nearly one-half of the stock of the Aluminum Castings Company, 37 per cent of the stock of the Aluminum Goods Manufacturing Company, and to be sole owner of the stock of the Northern Aluminum Company and the United States Aluminum Company, manufacturers of aluminum cooking utensils.

D. THE REGULATION OF MONOPOLY

209. Law and the Forms of Combination²²

BY BRUCE WYMAN

Notwithstanding all the law against agreements in restraint of trade, the present generation has seen the greatest movement toward consolidation which is recorded in economic history. But this was not accomplished without a reckoning with the law. In the face of adverse law the ingenuity of attorneys, acting for clients who wished to bring about a community of interests, has been taxed to the utmost; and at best their schemes have proved only temporary expedients. In this era of consolidation there has been a change of base at least four times; first, the pool—a direct agreement between the corporations concerned for their joint operation to a certain extent; second, the trust—an indirect arrangement between the shareholders to control the actions of their corporations; third, the holding company—a central company to hold the shares of the constituent companies; and, fourth, the single corporation, which buys the properties of the competing corporations outright. Yet, despite these

²²Adapted from *Control of the Market*, pp. 142-64. Copyright by the author. Published by Moffat, Yard & Co., 1911.

various forms, the problem as to how various corporations may be concentrated under one control is still to a large extent unsolved.

There was never real legal expectation of the success of any form of pooling. There was too much express authority against combinations in restraint of trade for that.

Perhaps every member would live up to his agreement; but there was no remedy at law if anyone did not. Perhaps the proceeds of the pooling would be fairly divided; but the court would not order an accounting. And experience showed again and again that, without legal obligation, there were always members in any such pool treacherous enough to break it. Moreover, there was the corporation law to reckon with which has always held it contrary to policy for corporations to surrender their independence by entering a pool. The courts have held that for no purpose, legal or illegal, could corporations be members of a partnership; that they could not carry on their business in common.²⁸

It is further to be noted that when a combination in restraint of trade is once proved to be such, outlawry is declared. It can bring no suit against those in it; neither can they sue it. The courts will have nothing to do with either association or associates. This is the penalty, that the loss must lie where it falls; and this policy is in itself often one of the strongest of deterrents. Thus any member of the association may withdraw when it suits his interest to do so, a result that minimizes the harm that such a combination may effect. For experience shows that the result is that competition goes on surreptitiously, despite the agreement, since every active member is strengthening his position in preparation for an ultimate withdrawal. And at the psychological moment some member, who has accumulated a large stock while production has been curtailed, will sell out at near to the top price and break the market, thus causing his associates irreparable losses.

Such was the state of the law when the trust agreement was discovered by a startled community. The features of this scheme are well known. All the shares of the capital stock of all the confederating corporations are transferred to a board of trustees. These issue trust certificates in lieu of these shares, thus reserving the voting rights in all the corporations. As a cover for the scheme all of the corporations remain in existence; and in form each conducts its own business without any cross agreements among themselves.

From the point of view of those who had on foot a scheme to monopolize, this trust device was excellent. It was centralized in

²⁸ *Mills v. Upton*, 10 Gray 582; *Mallory v. Hanaur Oil Works*, 86 Tenn. 596.

its control and secret in its doings. It left the power of control with the inner circle, while enabling them to market as many securities as they pleased. But adverse court decisions robbed the agreement of its effectiveness.²⁴ It was held against the law governing corporations in that it was beyond its power for a company thus to surrender its independence. It was also a void arrangement by the law against combinations in restraint of trade. The courts looked through the outer forms into the inner facts. This was fortunate, for from the point of view of the state the scheme was almost beyond control, as its accounts could be juggled and responsibility for wrongdoing could not be fixed.

A transition period of a few years followed upon the dissolution of the trusts. The original owners still had the properties; and the common danger held them together, temporarily at least. Meanwhile the lawyers were casting about for some new scheme for combining interests that would have legal sanction. The first schemes were rather obvious attempts to make use of some established arrangement as a cover for combination. Rather absurd these were, doomed to early exposure from the outset. What could not be done directly could not be brought about by indirection. The imperative need was a device that would stand the test of legality. It is true that without legal sanction much may be done under a gentleman's agreement; but without legality in organization there is no security. Nor can there be any permanence unless the arrangement is perpetual. And, further, without security and permanence, there can be no issue of securities or market for them.

Eventually there was evolved the idea of a holding corporation, a new central body which should acquire a majority of the stocks of the constituent companies. The holding company possessed possibilities of manipulation pleasant to contemplate; the marketable issues could be doubled by making the stock of the holding corporation twice that of the constituent companies; and since the operation of the business could be concealed between the accounts of the holding company and the constituent companies, there would be nothing to fear from the publication of formal statements.

There were obviously legal difficulties. In most states by the common law it was beyond the powers of one corporation to hold the stock of another for the purpose of operation. In some states, however, statute law or special charter permitted corporations to be organized to hold the stocks of other corporations. But this was at best a solution of only one of the difficulties; another remained. Granted that

²⁴ *People v. North River Sugar Refining Company*, 121 N. Y. 582; *State v. Standard Oil Company*, 49 Ohio St. 137.

the corporation was enabled to act without violation of the corporation law, there was the anti-trust law still to reckon with.

So it came to be recognized that there was a safer way, if one chose to take it. The approval form among lawyers during the last few years for making a consolidation of interests is by the formation of a single gigantic corporation intended to take over by purchase all the different concerns that are to be brought together. It has been ruled that "corporations are empowered to purchase, hold, and use property appropriate to their business. Under such powers it is obvious that a corporation may purchase the plant and business of competing individuals and concerns."²⁵ But this is not unquestioned law by any means. A court of equal authority has said, "There is no magic in a corporate organization which can purge the trust scheme of its illegality, and it remains as essentially opposed to the principles of sound public policy as when the trust was in existence. It was illegal before and is illegal still, and for the same reason."²⁶

From step to step in this succession there is a movement toward integration. Now that the end of economic evolution has been reached in a single corporation, the law against combinations in restraint of trade may perhaps cease to operate. Now the state may impose such special regulation upon these industrial concerns as the situation requires. The problem is therefore much simplified since the time of the trusts. It has been reduced to its lowest terms by the activity of the law in insisting that all combinations of every stripe should be destroyed. The question then emerges, Shall these great corporations be destroyed or shall they be regulated? That, it is submitted, is the trust problem in its latest phase.

210. The Sherman Anti-Trust Act²⁷

Section 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by a fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

²⁵ *Trenton Potteries Company v. Oliphant*, 58 N. J. Eq. 507.

²⁶ *Distillers and Cattle Feeding Company v. People*, 156 Ill. 448.

²⁷ From 26 U. S. Statutes 209 (1900). There are eight sections. The five sections given here form the essential part.

Section 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 3. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any territory of the United States or in the District of Columbia, or in restraint of trade or commerce between any such territory and another, or between any such territory or territories and any state or states or the District of Columbia, or with foreign nations, or between the District of Columbia and any state or states or foreign nations, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 7. Any person who shall be injured in his business or property by any other person or corporation by reason of anything forbidden or declared to be unlawful by this act, may sue therefor in any circuit court of the United States in the district in which the defendant resides or is found, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the costs of the suit, including a reasonable attorney's fee.

Section 8. That the word "person" or "persons," wherever used in this act, shall be deemed to include corporations and associations existing under or authorized by the laws of the United States, the laws of any of the territories, the laws of any state, or the laws of any foreign country.

211. The Meaning of Restraint of Trade²⁸

In substance, the propositions urged by the government are reducible to this: That the language of the statute embraces every contract, combination, etc., in restraint of trade, and hence its text leaves

²⁸Adapted from the opinion of the court in the case of *The Standard Oil Company of New Jersey v. United States*, 221 U. S. 1 (1911). By this decision the Standard Oil Company of New Jersey was ordered "dissolved." The significance of the decision lies in the distinction made by the court between "reasonable" and "unreasonable" restraint of trade, and the insistence that the Sherman act was meant to apply to the latter exclusively. This is the subject of discussion in the selection given here. The Standard, of course, was found guilty of "unreasonable" restraint of trade.

no room for the exercise of judgment, but simply imposes the plain duty of applying its prohibitions to every case within its literal language. The error involved lies in assuming the matter to be decided. This is true because, as the acts which may come under the classes stated in the first section and the restraint of trade to which that section applies are not specifically enumerated or defined, it is obvious that judgment must in every case be called into play in order to determine whether a particular act is embraced within the statutory classes and whether, if the act is within such classes, its nature or effect causes it to be a restraint of trade within the intendment of the act. To hold to the contrary would require the conclusion either that every contract, act, or combination of any kind or nature, whether it operated a restraint on trade or not, was within the statute, and thus the statute would be destructive of all right to contract or agree or combine in any respect whatever as to subjects embraced in interstate trade or commerce, or if this conclusion were not reached, then the contention would require it to be held that as the statute did not define the things to which it related and excluded resort to the only means to which the acts to which it relates could be ascertained—the light of reason—the enforcement of the statute was impossible because of its uncertainty. The merely generic enumeration which the statute makes of the acts to which it refers and the absence of any definition of restraint of trade as used in the statute leaves room for but one conclusion, which is that it was expressly designed not to unduly limit the application of the act by precise definition, but while clearly fixing a standard—that is, by defining the ulterior boundaries which could not be transgressed with impunity—to leave it to be determined by the light of reason, guided by the principles of law and the duty to apply and enforce the public policy embodied in the statute in every given case, whether any particular act or contract was within the contemplation of the statute.

212. An Appraisal of the Sherman Act²⁹

BY ALLYN A. YOUNG

The Sherman act is a general statute, declaratory of public policy. As such it must be judged by (1) the soundness of the policy which it declares, (2) the accuracy and completeness with which it declares that public policy, and (3) the adequacy of the mechanism which it provides for making that policy effective.

²⁹Adapted from "The Sherman Act and the New Anti-Trust Legislation," *Journal of Political Economy*, XXIII, 213-20. Copyright by the University of Chicago, 1918.

1. There can be little doubt that the public policy which the act was intended to embody is that competition should be maintained, artificial monopoly destroyed, and its growth prevented. It is clear from the debates attending its enactment that its hostility toward large industrial combinations was especially directed against (1) their supposed power over prices and (2) their aggressive suppression of competition. Whatever the economic advantages of monopoly may be, there will be little question of the soundness of the policy which attempts to deprive it of its power for evil in these two particulars.⁸⁰

2. Is the Sherman act an accurate expression of the public policy which it seeks to declare? If by accuracy is meant precision, it has little of it. It was, in its inception, a lawyer's statute, speaking in the language of the common law. At the time it was evident that it would be difficult for Congress to come to an agreement on particulars. Moreover, its general phrases were chosen intentionally, we are told by one of its framers, in order that the responsibility of determining its exact scope might be left to the courts. For seven years its interpretation was uncertain. The decisions of the lower court were conflicting, and the Supreme Court's holdings purely negative. Even after an utterance from this court, the words "restraint of trade" still remained to be defined, and in the next thirteen years the work of definition progressed only so far as the particular cases decided were typical of the classes of cases possible. The standard of public policy outlined in the Standard Oil decision was the first general criterion of the scope of the act. There is little doubt that the present interpretation of the statute is in harmony with the purposes which were in mind at the time of its enactment. There is now no question that if the purposes of combination are monopoly, they come within the condemnation of the act. There is no reason to think, for example, that price agreements and agreements to restrict output, whether of local or general scope, are not as illegal now as they have been at any time.

⁸⁰Most of the more weighty discussions of the economic advantages of monopoly have to do with the effect of monopoly upon the aggregate production of wealth measured in terms either of subjective satisfaction or of objective commodity units. Even from this point of view the case for monopoly is exceedingly dubious and, at best, has a validity that is restricted and conditioned in many ways. Moreover such considerations are relatively unimportant compared with matters like the effect of monopoly upon distribution, upon the scope for individual initiative, upon economic opportunity in general, and upon a host of social and political relations. In short, it is a question less of the relative "economy" of monopoly or competition than of the kind of economic organization best calculated to give us the kind of society we want. Until our general social ideals are radically changed, it will take more than economic analysis to prove that it would be sound public policy to permit monopoly in that part of the industrial field where competition is possible.

As a general expression of the public policy which it is supposed to embody the Sherman act is adequate. The difficulty is that it goes too far. In the first place, it is so worded that it is used as a weapon against strikes, boycotts, and other concerted efforts to interfere with the conduct of any business undertaking which ships its goods across state lines or to other countries. These things may be undesirable; very likely some of them are. But they are so far out of line with the other things condemned by the Sherman act, and in most instances have so little relation to "monopolizing" that they should be cut from the list of offenses condemned by the act. In the second place, the application of the Sherman act to railroads is inconsistent with the standards of public policy embodied in the Interstate Commerce Act. We regulate railroad rates and services on the assumption that railroads are natural monopolies, and that combinations or rate agreements are inevitable. But at the same time we condemn railroad combinations and rate agreements, and, as in the New Haven case, bring criminal indictments against the men responsible for such combinations. From railroads we exact the observance of two mutually inconsistent standards of morality. The real evils in railway combinations are matters of corporation finance. These should be dealt with by statutes appropriate to the purpose; and the Sherman act should be so amended as to be relegated to its proper field of preventable industrial monopolizing.

Finally, there comes the question of whether even within the industrial field we want to prohibit monopoly as well as aggressive monopolizing. Probably a monopoly achieved merely by the superior efficacy of a formerly competitive business unit (if such were possible) would not be condemned by the courts as a violation of the Sherman act. And what is the status of a monopoly built up merely by the peaceful union or absorption of competitive units? In such a case on which side public policy lies it is hard to determine.

3. Does the Sherman act provide an efficient mechanism for achieving its own ends? That its criminal features have been relatively ineffective is generally admitted. Furthermore, it has been found in practice that it is very difficult to secure a criminal conviction from a jury for an offense so general, so abstract, so tainted with the general and customary imputation of immorality as "restraint of trade" or "monopolizing." There is no reason to believe that it will ever be easy to secure convictions for restraint of trade in cases where the several steps taken in the creation of the restraint are unobjectionable except as a part of a general scheme. As it is the statute provides only an indirect and uncertain way of penalizing

unfair competitive methods. I see no reason why the criminal remedies of the Sherman act should be retained.

The proceedings in equity for the dissolution of a combination have, on the contrary, proved to be increasingly effective. It is contended by many that the enforced dissolution of a combination means generally a mere change in form; that we are merely hunting the quarry from tree to tree. But neither in transportation nor in industry does it clearly appear that the newer and more unified forms of consolidation would not have largely displaced the old, even if the movement had not been hastened by legislations and decisions under the common law. Among other things tending to this end are the various strategic advantages of the consolidated unit, and the permanency and dependability of the new forms of combination, making possible the adoption of business policies based on long-time considerations. It is more than possible that after a long chase the quarry has at last been driven into a corner.

Is it proved that the mere dissolution of industrial combination accomplishes anything, especially in cases where the equities in the combination are made the basis of a pro rata distribution of the equities in its constituent parts? Only a few general conclusions can be stated: (1) The results must vary with the nature of the business and the degree to which the aggressive suppression of competition played a part in maintaining competitive conditions. (2) Dissolution rarely comes early enough—not until the monopolistic situation has become more or less crystallized. (3) The operation of the statute is intermittent. Dissolution should be carefully followed up, and every step in the process of restoring normal conditions should be carefully watched. This requires administrative machinery.

In its own field the Sherman act has a value all its own. No matter how carefully drawn the rules of the game may be, no matter how high the level set by the law of competition, new business conditions are bound to arise, not covered by specific statutes, and yet contrary to the generally accepted public policy of the maintenance of competition within its own proper field. The Sherman law, as a general declaration of public policy, has an elasticity and adaptability to new situations of all kinds not possible to legislation of a more specific sort. Its declaration of public policy is general enough so that it may gradually grow in meaning and change in application through judicial decision as the common law has grown and changed. So long as the preservation of competition in that large part of the industrial field in which it is feasible is public policy, why should we not, through such a statute, continue to give

the federal courts jurisdiction in cases involving the assertion of that public policy? But it needs amendment in the ways which have been indicated.

213. Provisions of the Clayton Act²¹

BY W. H. S. STEVENS

The Clayton Act provides:

A. That it shall be unlawful for any person engaged in commerce to make discriminations in prices between different purchasers of commodities sold for use, consumption, or resale, where the effect of the discrimination may be substantially to lessen competition or tend to the creation of a monopoly.

B. That it shall be unlawful for any person engaged in commerce to lease, sell, or contract for the sale of goods, patented or unpatented, or to fix a price charged therefor, or discount, or rebate, upon such price, conditioned upon the lessee or purchaser thereof, not using or dealing in goods, of competitors of the lessor or seller, where the effect may be substantially to lessen competition, or tend to create a monopoly.

C. That no corporation shall acquire the whole or any part of the stock or other share capital of another corporation, or two or more corporations, where the effect may be substantially to lessen competition, to restrain commerce, or to tend to create a monopoly.

D. From and after two years from the date of the approval of the act:

1. No person shall be a director or other officer or employee of more than one bank organized under the laws of the United States if any one of them is above a certain size; and no private banker or person who is director in any bank or trust company organized under the laws of any state, and above a certain size, shall be eligible as a director of any bank or banking association incorporated or operating under the laws of the United States.

2. No bank organized or operating under the laws of the United States in any city, incorporated town, or village, of more than 200,000 inhabitants, shall have as director or officer or employee any private banker or any director or any other officer or employee of any other bank located in the same place.

²¹Only a few of the provisions of the law are given, and these, because of their great length, are presented in summary form. The adaptation is from "The Clayton Act," *American Economic Review*, V, 40-41. Copyright, 1915.

3. No person shall be a director at the same time in any two or more corporations (other than banks and common carriers) engaged in interstate commerce, any one of which has capital, surplus, and undivided profits aggregating more than \$1,000,000, if such corporations have been competitors so that the elimination of competition between them will constitute a violation of any of the provisions of the antitrust laws.

214. The Trade Commission and Clayton Acts²²

BY W. H. S. STEVENS

Two acts have recently been passed making important changes in the federal laws as it applies to trusts and combinations. These measures are generally known as the Trade Commission Act and the Clayton Act.²³ With reference to this legislation the following conclusions may be drawn:

1. The Trade Commission is a body with wide powers of investigation and limited administrative authority.

2. Several of its investigatory powers have to a noticeable degree been previously exercised by the Bureau of Corporations or the Department of Justice. But the investigatory authority of the commission is considerably greater than that possessed in the past by both of these other agencies.

3. The commission is given powers of making recommendations to the Attorney-General for the readjustment of the business of corporations violating the anti-trust acts and also of ascertaining and reporting appropriate decrees in equity suits brought by or under the Attorney-General. But the exercise of these functions depends in the first place upon the application of the Attorney-General and in the second case upon the reference of the suit by the courts to the commission.

4. The Trade Commission Act gave the commission a most important administrative authority in providing that the body should prevent unfair methods of competition. The Clayton measure further extended this authority in giving it jurisdiction to enforce the prohibitions against holding companies and interlocking directorates.

²²Adapted from "The Clayton Act," *American Economic Review*, V, 51-54. Copyright, 1915.

²³The former measure became a law when the President attached his signature to it September 26, 1914, and the latter on October 16, 1914.

It also gave it jurisdiction to prevent price discriminations and exclusive and tying agreements.

5. The enforcement of the principal prohibitions of the Clayton Act and of the unfair competition section of the Trade Commission Act is entrusted to the commission by the following method of procedure. The commission conducts a hearing and makes an order against a practice, a review of which may be had by the party against whom it is made in the Circuit Court of Appeals. If the order is not obeyed the commission applies to the same court for enforcement, and the jurisdiction of the court in both cases is exclusive and final.

6. A concurrent justification has been vested in the district courts to enforce the prohibitions against price discriminations, exclusive and tying agreements, holding corporations, and interlocking directorates. Thus it is to be noted that there are two courts of appeal: the Circuit Court of Appeals when the Trade Commission makes order against these practices, the Supreme Court when the district court enjoins them.

7. The new laws rely primarily upon contempt proceedings and the penalties therefore in enforcing their prohibitions.

8. The elimination of the criminal penalties from several sections of the Clayton Act and the lack of any such provisions as punishment for unfair methods of competition clearly point to civil rather than criminal procedure as the remedy to be invoked in cases of violation of the principal prohibitions of the new legislation. This, coupled with the fact that the new laws provide for a Trade Commission with jurisdiction over the important prohibitions, points to a policy of administrative regulation of the trusts.

9. The powers given to the Trade Commission of classifying corporations and prescribing the form of reports are pregnant with possibilities. Through these powers it would appear possible for the Trade Commission to determine with some correctness the relative economic efficiency of competition on the one hand and combination and monopoly on the other. Even if no such broad determination can be arrived at for industry in general, it ought at least to be able to learn in what types and kinds of business the one or the other principle is the more efficient.

10. There are provisions in the new legislation in the direction of enabling individuals to protect themselves against loss or damage by reason of violations or threatened violations of the anti-trust acts. This embraces among other things a re-enactment, now applied to violations of any of the antitrust acts, of the threefold damage clause of the Sherman Act.

E. THE FUTURE OF REGULATION

215. Standardization and Combination²⁴

BY HOMER HOYT

The advocates of standardization may be surprised to find that they are committed to a policy of concentration of industry. Yet that is the inevitable goal toward which their principles are carrying them. Standardization and the competitive principle cannot live amicably together; one always tends to destroy the other.

Thus if under competitive conditions a number of rival firms undertake to manufacture the same standardized article, competition is entirely on the basis of price. Hence the concern which can produce at the lowest cost will undersell its rivals and drive them from the field. Every inroad by the larger concern upon the markets of its rivals increases its output and lowers its overhead cost per unit. Correspondingly it decreases the output and increases the cost per unit of product of the smaller firm. Where unit costs decrease with volume the larger concern can use the trade gained by price cutting as a basis of lowering prices still more, while the smaller concern with every loss of sales is either forced to raise prices or to increase its deficit at a progressive rate. Wherever standardization and fixed capital make mass production more economical, competition will die of its own excesses and a combination of firms will be the only form of business organization.

Even as competition thus fails when standardization is master, so also is standardization overthrown when competition is kept in the saddle. For the only way by which rival manufacturers can escape excessive price competition is to transfer competition to the plane of quality. This involves splitting up the standardized product into many brands that are distinguished from each other by slight difference in size, shape, color, or design. Since the consumer cannot properly appraise the pecuniary value of these intangible and æsthetic differences, he cannot readily compare prices of different brands and he thereby loses his power to stimulate price competition between manufacturers. On the other hand, when the consumer makes his own specialty, he enjoys a narrow range of monopoly control over price, measured by the consumer's preference for his particular brand. Through unique patterns and ornamental designs that appeal to a narrow market and require frequent changes in the manufac-

²⁴Adapted from "Standardization and Its Relation to Industrial Concentration," *Annals of the American Academy of Political and Social Science*, LXXXII, 271-77. Copyright, 1919.

turing process, quality competition prevents a realization of the advantages of large-scale production.

Hitherto in America competition has prevailed over standardization. This has given the consumer almost unlimited power in directing the styles of goods to be produced. Manufacturers have not attempted to exercise autocratic power over our daily lives. American consumers have not been forced to lie in iron beds of Procrustes of standard dimensions, but they have had their choice of iron, brass, and wooden beds of manifold sizes and designs. The discriminating judge of chairs has had 518 patterns of piano stools and a countless legion of ordinary chairs from which to make his choice. Anyone who was particular about the appearance of the interior of his house could spend his lifetime looking over samples of wall paper. From the cradle to the grave, from the many varieties of cribs and baby carriages to the profusion of styles in burial shrouds and coffins, the consumer has been unrestricted in his choice.

Yet to satisfy his eccentric notions the consumer is compelled to forfeit the benefits of standardization. He cannot buy a standard limousine, standard units of clothing graded according to wool content, and standard canned goods of guaranteed purity, weight, and quality. Instead he must select what he desires from the bewildering array of similar brands in our national window display. Not only must he spend his time in appraising superficial differences and in educating himself against the wiles of the salesman, but he must spend money for his liberty of choice. The extra materials and labor required by ornamental features, the risk of special brands going out of style, and the luxury of small-scale production must be paid for by him. The manufacturer loses because his market is limited. Society loses on account of a wasteful application of its resources.

Some of this individuality of style is worth its social cost. A society in which everyone rode in Ford cars and lived in uniform cement houses would be monotonous, even if economical. But, with all due allowance for necessary minima, further indulgence of individual eccentricities merely lessens the surplus capital that might be used for the cultural expression of a people along lines where fine differences count for the most in artistic effect. It seems that our long-cherished liberty of having so much to choose from that we cannot make an intelligent choice is not worth clinging to. The economy of standardization makes a strong appeal to consumer and producer in time of peace. When the exigencies of war also demand standardization the American people were quite willing to sacrifice its theoretical freedom of selection. The war compelled a degree of

unification and standardization in American industry that has never existed before. American business men who standardized their products now hesitate to return to the old competitive struggle.

Combinations were necessary to secure the war-time standardization. The war-service committees that were organized in each trade under the United States Chamber of Commerce were the temporary war-time consolidations that substituted some degree of uniformity for an every-man-for-himself policy. These ephemeral industrial pools, formed only for the period of emergency, derived their binding force and their resulting powers to compel standardization from the spirit of national sacrifice. Permanent industrial combinations to effect standardization must run the gauntlet of a different set of social conditions; they must meet the test of industrial fitness and the scrutiny of the law.

The existing law runs counter to the great combinations that would sponsor standardization. The only methods by which thoroughgoing standardization can be attained, i.e., by combination, are declared to be unlawful. The circumstance that the combination of industry was for the beneficial purpose of lowering costs by large-scale production would not blind the eyes of the courts to the fact that the keen competition over staples was thereby restrained. The very power which arises out of large combinations is itself illegal, regardless of the mode of its exercise.

The way toward standardization lies between the whirlwind of ruinous competition and the sharp rocks of the Sherman act. The breach between economic advantage and the law seems to be widening, and sooner or later a change must come. The law is the first to show signs of bending. The Webb-Pomerene bill permits combination for export business. Since that necessity means perfect harmony among all the firms of a domestic industry for the one purpose of foreign trade, it will be difficult indeed to cause these firms to fight in the other purpose of domestic business.

As the foreign demand for American goods increases there will come an increasing tendency toward large-scale production. As we develop more and more into a manufacturing nation, the industries of the country will be knit more closely together.

As some American industries thus tend to expand into monopolies of world-wide scope, foreign combinations of trades will also attain monopoly size by entering our markets and exchanging their wares for the products of our monopolies. In this merciless international competition, the small business unit will lose even the little market that it has, and the industries of the world will become concentrated into monopolies that, from manufacturing centers located at the points

of greatest geographical advantage, will send their standardized products by swift and cheap carriers to the farthest recesses of the Orient and the developing jungles of Africa and South America.

Many business men already see the change forecasted in the industrial barometer, and they are preparing for the time when the legal dyke will no longer be able to hold back the gathering flood. In the meantime the prospective dangers of unregulated monopoly should hasten the preparation of new instruments of social control. We must draw the fangs of our new-born monopolies before they use their adult powers to seize control of our political and financial machinery for their selfish ends. The practice of standardization will create a new fund of wealth, but we must control the forces that bring it forth so that the masses of consumers will share the benefits.

216. Results of Regulating Combinations²⁵

BY E. DANA DURAND

Few of those who have advocated the policy of permitting combinations to exist subject to regulation seems to have given thought to the magnitude of the task, its difficulties, or its ultimate outcome. They have had in mind the comparatively few closely knit trusts of the present time; the so-called "good trusts" with their alleged superior efficiency and their more or less reasonable policy toward the public.

In the first place it would be difficult to limit the number of trusts under such a policy. It is, of course, conceivable that the government should undertake to suppress combinations in general while permitting a few trusts to exist. A limited number might be tolerated because of the special economic characteristics of the industries concerned which tended to make combination particularly economical. If, however, the people once concede the right of a monopolistic combination to exist, independently of extraordinary conditions, a sense of justice should apparently compel them to permit combinations *ad libitum*. Under no theory of justice could all the trusts heretofore organized be permitted to continue without granting permission to organize trusts in every other field.

In the second place, it would seem that if combinations having power to restrain trade are to be permitted at all, they must be permitted to become as comprehensive as they desire. Why should a combination not be allowed to take over 100 per cent of the business in its field quite as readily as 80 or 70 per cent? Few desire to prohibit combinations controlling only a small proportion of a

²⁵Adapted from *The Trust Problem*, pp. 46-59. Copyright by Harvard University, 1914.

given industry; but if we permit that limit to be overstepped at all, there is no limit. One can only speculate upon how numerous and how comprehensive the trusts and pools would become if the policy were adopted of permitting them freely but subjecting them to regulation. In all probability the number would become very great. Beyond question every combination, unless prevented by the government, would take in just as large a proportion of the trade as could be persuaded to enter it. In many cases this would mean the entire trade.

If corporations were freely permitted and no limit placed upon their magnitude, neither actual nor potential competition would be an adequate check upon prices and charges for service. Government regulation would unquestionably be necessary.

Some have suggested that regulation would be comparatively simple. Only bad trusts would be interfered with, and the fear of government intervention would make most of the trusts good. The government, some seem to think, could let the trust go its own way until it was proved to have become extortionate or to have used unfair methods, and could then step in and punish its officers, or suspend its right to do business. But how is the trust manager to know in advance what prices and what practices will be adjudged so unreasonable as to call for criminal prosecution? What advantage would there be in breaking up a trust, if another trust could be formed in its place the next day? It would be intolerable to the users of its products and services to stop its business even temporarily. A good trust may become a bad trust overnight. Shall it be a lawful organization today and an outlawed wreck tomorrow? Regulation implies continuity of the combinations. Even if the government adopted the policy of punishing trust managers as a penalty for extortionate prices and unfair practices, this would require as thorough an investigation and as difficult a judgment as to determine the proper prices and practices for the future.

In its very essence, however, regulation implies, not punishment of past action, but prescription of future action. This means that the government, if it undertakes regulation of trusts, will ultimately have to fix their prices or limit their profits, or both. There is no way to insure reasonable prices under monopoly control, but to restrict them. If the government enters upon this policy ought it not to go a step further and guarantee to the combination a permanent monopoly, protecting them against competition? The public is coming to accept the view that justice to investors in public service industries demands protection against competition. If the investor in trust securities has had his profits held down by government

regulation, it is hardly fair to permit those profits to be still further lowered, perhaps wholly destroyed, by the advent of a competitor.

Whatever might be the outcome of government regulation, there can be no doubt of the immense difficulty of just and efficient regulation of the prices or the profits of industrial combinations. The federal government and the states would have to maintain elaborate and powerful machinery to control the combinations. Consider the nature of the task which would confront an administrative body. In the first place, it would have to possess at all times detailed information regarding all the concerns under its jurisdiction. The prices of many commodities are necessarily variable. The cost of material may change greatly and rapidly. The conditions of demand are changeable. Grave injury might be done to the public during the time required for securing information on which to base action if such information were not already in the possession of the regulating authority.

In the second place, the amount of detail involved would be enormous. A proper fixing of prices would require complete knowledge of the costs of production and of the amount of investment. To make information accurate, the government would have to prescribe the methods of accounting. It would be impossible to prescribe uniform methods as is done for the railroads. The bewildering variety of conditions in the different industries would have to be provided for. Detailed reports, based on these prescribed methods, would have to be made to the government, and these would have to be scrutinized and studied with the utmost care. The government would have to employ a vast corps of expert accountants, statisticians, and other specialists. The difficulties of cost accounting are so great that many of the large business concerns have found it impossible to ascertain the costs of their products on scientific principles. The business concern can get along without accurate knowledge of its own costs. The government, however, in fixing prices, must know all about cost, both operating costs and capital charges. They are the very things which primarily determine the reasonableness of prices.

In the third place, the determination of costs and investments for the purpose of fixing prices would involve immensely difficult problems of judgment. The judgment of the regulating body would be constantly challenged and the result would probably be endless litigation. The proper allowance for depreciation and obsolescence, the proper apportionment of overhead charges among different products and services, the proper methods of valuing the different elements in investment—these would have to be passed upon by the

regulating authority. Such problems are difficult enough as they confront the Interstate Commerce Commission. They would be far more difficult for a body dealing with multifarious combinations in widely different industries.

Even if the regulating authority should succeed in working out a satisfactory determination of costs of production and value of investment, it would still be beset with troubles in fixing prices or limiting profits. Demand for goods is variable even in non-competitive industries. Unchanging prices or prices bearing an unchanging relation to costs would not be practical in mining, manufacturing, and mercantile business. A combination might at times be justified in reducing prices below a normal level to stimulate demand and keep its force employed, or to meet foreign competition. The government would then have to determine how much prices could subsequently be advanced in order to offset these reductions. In other words, the government would be dealing with a constantly changing problem of demand. Particularly difficult would be the fixing of proper prices for products produced at joint cost. Take petroleum for example. A wide variety of products are derived from the one raw material, crude oil. Some of these are in so little demand that they must be sold for less than the price of the crude oil itself. Others are in great demand and can be sold for high prices. It is impossible to use costs as a basis for determining prices of the specific products. For a regulating body to determine the proper relationships of the prices of these joint products is virtually impossible.

One could continue almost indefinitely setting forth the complexities and difficulties of government regulation of the prices and profits of combinations. A vague form of regulation will not do. It would be difficult to prove that the public would be any better off under a régime of half-regulated monopoly than under a régime of competition enforced as well as possible by laws against combinations and monopolies. Combination must be proved decidedly more efficient than competition before the people will be justified in trusting trusts under any but the most rigorous government control.

Government regulation of prices and profits always involves a large element of waste, of duplication of energy and cost. It means that two sets of persons are concerning themselves with the same work. The managers and employees of the corporation must study cost accounting and conditions of demand in determining price policy. The officers and employees of the government must follow and do it all over again. Moreover, the fact that the two sets of persons have different motives in approaching their work means friction and

litigation, and these spell further expense. To superimpose a vast governmental machinery upon the vast machinery of private business is an extravagance which should be avoided if it is possible to do so.

The policy of government regulation of industry may readily become a stepping-stone to government ownership and socialism. The chances are strong that the government of the United States will take over the telegraphs and telephones in the near future and the railroads within less than a quarter of a century. If regulation by the government proves ineffective in securing reasonable rates, the general public will demand government ownership. If regulation proves so effective as to leave only moderate returns to the stockholders of the corporations, the stockholders are likely to urge government purchase, which would at least assure them a more certain income. In either case the excessive cost of government regulation will be urged as a reason for government ownership. In the same way, if the government undertakes detailed regulation of combinations in manufacturing, mining, and trade, there is bound to be a strong movement for government ownership in these fields also.

Government ownership of this or that industry is not necessarily a bad thing. Even government ownership of a large proportion of the industries of the country, even complete socialism, need not necessarily affright us. It is sufficient to point out that the people ought not to enter on the path of permitting and regulating combinations without considering the advantages and disadvantages of this, the possible ultimate outcome, as well as those of the immediate policy itself. If it could be proved that combination is materially more economical than competition, we should doubtless be wise to say farewell to competition. Presumably in this case we ought to test thoroughly the practicability of government regulation of private monopoly before proceeding further. The people would naturally first try the plan of government ownership, if at all, in limited fields, and compare the results with those of regulated monopoly before undertaking general government ownership. It is by no means improbable that the ultimate outcome would be socialism. The future is very likely to see either a régime of general competition—with, of course, some special exceptions—or a régime of universal communism. Clearly, then, we should be very sure of our ground before we take the first step toward possible communism. We should convince ourselves beyond all doubt that competition is impossible; or that, if possible, it is less efficient than monopoly—not merely at certain times and in certain places, but generally and permanently—before we tolerate widespread combination in the field of business.

X

THE PROBLEMS OF POPULATION

It is generally agreed to be desirable to use our powers of social control to eliminate, or greatly reduce, the grosser social evils, such as misery, poverty, vice, and crime. Perhaps the great majority of us would go farther, and use such powers in quite a positive way to make society conform more closely to our ideals. But we differ, as "reformers" have always done, as to methods. In general we belong to two schools, the one stressing control of "environment," the other control of "population." The former demands greater equality in the distribution of income, a bettering of living and working conditions, a state relief of the stress due to "economic insecurity," and like measures. The latter variously insists upon the reduction of numbers through "control of births," the restriction of immigration, and a "scientific breeding" of a "superior race" from the "eugenically fit." Some of the latter school emphasize quantitative, others qualitative, control of numbers.

The quantitative question has been much the more clearly appreciated. From the blessing "of the seed of Abraham" to England's recent imperative demand for "war brides," militaristic thought has always associated national greatness with a large population. A country in the stage of increasing returns places a high value upon sheer quantity of people, invites large families through its social conventions, and encourages its cities to boast of their numbers. It is only the presence or the anticipation of diminishing returns that causes a nation to see truth in the Malthusian specter of pressure of population upon the means of subsistence.

Half unconsciously, half deliberately, we of the United States have tried to realize our "national destiny" by exercising control over our numbers. But our problem has not until recently involved restriction of population. The movement for "smaller families and better" is one of a few decades, and it has affected only the more settled stocks. It cannot be said to have exercised as yet any general influence in restricting numbers. Our policy has been, on the contrary, one of increasing our population with mechanical rapidity, by supplementing a high, but falling, birth-rate with an extremely high rate of increase through immigration. By maintaining an "open door" we have allowed the population of the Western world slowly to adapt itself to natural resources considerably augmented by the addition of America. In the process of restoring an equilibrium throughout America and Europe as a single social entity, population has flowed to the regions where it has the highest value. The passing of the "old" and the coming of the "new" immigration shows that the leveling process in the Western World is well under way, and that Southeastern Europe is being brought within the common scheme of values. If immigration be left unrestricted, the "problem" will eventually disappear; but it will disappear because movement will no longer pay. This will come about when the lower level of material culture becomes dominant for the entity.

We have increased our population by immigration because we have needed numbers. Our vast natural resources have demanded for their development vast quantities of cheap labor. A continuous immigrant stream has supplied an increasing demand. The result has been the rapid development of a vast pecuniary system, in which the older stocks have generally been pushed up into positions of greater responsibility and higher wages. Our standards of living have been further advanced by the myriads of cheap goods which immigrant labor has enabled our mills and mines to turn out.

But, like protection, the results of immigration have not been and could not have been, limited to the purely industrial results which were anticipated. Immigration, in connection with such complementary "forces" as protection,

the rapid accumulation of capital, the swift adaptation of the machine technique to a new continent, has contributed to the general transformation of American society which has come about in the last fifty years. It has played its part in the overdevelopment of our natural resources, the rapid growth of our mining and manufacturing, the extension of our pecuniary system, the evolution of our urban culture, and the institutions, attitudes, and problems which have been incident to this. Its rôle in the production of our "prosperity" has been by no means a negligible one. Its social effects are very closely bound up with the tariff. By accelerating the rate of our development and by tying up larger and larger proportions of our resources in industries supplying capricious wants, it has intensified the rhythm of the business cycle. By blessing the country with an endless stream of "green" labor, it has seriously weakened the bargaining position of native laborers, has retarded the development of group solidarity, and has slackened the rate of improvement of factory conditions. It has caused our national life to remain "in a state of perpetual transition," and inhibited the formulation of the standards which a stable society must possess. Through the very plasticity of the immigrant it has preserved too much of the older institutional system, despite the sweeping transformation of our social life. To this end it has strengthened the hold of the older individualism; it has increased the inequalities in wealth; it has rendered the strategic position of property stronger; it has added huge increments of illiteracy to the body of citizens; it has delayed our achievement of social unity.

Not content with complicating all our social problems and adding a quota of new ones, it has presented us a perplexing and baffling immigration problem. In the past we have solved this in the formula, "Whosoever will, let him come." Our futile attempts at restriction have involved the contradiction of making use of a qualitative test, that of literacy, to solve a problem which we have conceived of only in quantitative terms. But if the era of emigration is not upon us, and if the great barbarian invasion is not at an end, to control our growth we must formulate a more elaborate policy. In that task we must ask ourselves some very pertinent questions. What place is the immigrant to have in the future American society? Is he ultimately to become one of us, or is he to constitute a permanent proletariat in a class society? How many immigrants can we use? What are we to use them for? What policy will result in securing the right number, of the right kinds, and in the right proportions? Have we elaborated machinery for making the immigrants the kinds of people we want them to be? Can such machinery be elaborated? What influences is the newcomer exerting, or destined to exert, upon our ideals, our standards, our institutions and our programs? And what in the less immediate future is going to be the good of it all?

As we as a nation become older, our problems little by little lose their gigantic and crude character. Our solutions must accordingly become more delicate and exact. With this change in our national life we are beginning to give more attention to the qualitative side of the population problem. As yet we have aimed only at "negative" results. We have tried to prevent the marriage and breeding of the "unfit," such as the insane, the feeble-minded, and those possessed of chronic and hereditary (?) diseases. We have made some attempt to prevent the marriages of those of radically different stocks, such as whites and blacks. But we have as yet formulated no positive program aimed at a definite result. We have, with trifling exceptions, allowed men of any race to come and sojourn with us. To prevent their becoming contributors to a future American race we have depended only upon such social restraints as inhere in racial antipathy and in the difference in social and economic positions between members of different stocks. A permanent control of the quality of population involves both the immigration and the eugenics problems. We must allow only those whom we desire to come in or to be born. But whom do we desire? This problem is not the simple one of the breeder of race horses, draught animals, or fine porkers. There is no single and simple quality that we are to breed for, such as speed, physical strength, or quantity of flesh. The answer is contingent upon the answer to the larger and more difficult question of the kind of society we want to develop.

A. THE QUESTION OF NUMBERS

217. Utopia and the Serpent¹

BY THOMAS HUXLEY

Suppose a shipload of English colonists to form a settlement in such a country as Tasmania was in the middle of the last century. On landing they find themselves in the midst of a state of nature, widely differing from that left behind them. They proceed to put an end to this state of things over the area they wish to occupy. They clear away the native vegetation, and introduce English vegetable and animal life, and English methods of cultivation. Considered as a whole the colony is a composite unit introduced into the old state of nature; and, thenceforward, a competitor in the struggle for existence. Under the conditions supposed there is no doubt of the result, if the work of the colonists be carried out intelligently. On the other hand, if they are slothful, stupid, or careless, there is no doubt that the old state of nature will have the best of it.

Let us now imagine that some administrative authority, as far superior to men as men are to their cattle, is set over the colony. The administrator would, so far as possible, put a stop to the influence of external competition by thoroughly extirpating the native rivals, whether man, beast, or plants. And he would select his human agents with a view to his ideal of a successful colony. Next, in order that no struggle for means of existence between human agents should weaken the efficiency of the corporate whole, he would make arrangements by which each would be provided with those means. In other words, selection by means of a struggle for existence between man and man would be excluded. As the same time, the obstacles to the development of the full capacities of the colonists would be removed by the creation of artificial conditions of existence of a more favorable character. Protection against heat and cold; drainage and irrigation, as preventives of excessive rain and drought; roads and canals, to overcome obstacles to locomotion; mechanical agencies to supplement the natural strength of men, would all be afforded. With every step in this progress in civilization, the colonists would become more and more independent of nature. To attain his ends the administrator would avail himself of the courage, industry and co-operative intelligence of the settlers; and it is plain that the interests of the community would be best served by increasing the proportion of persons who possess such qualities, in other words, by selection directed toward an ideal. Thus the administrator might look for the establishment of an earthly paradise, a true garden of Eden, in which all things

¹Adapted from "Prolegomena" to *Evolution and Ethics* (1894), pp. v-vii.

should work together toward the well-being of the gardeners, in which men themselves should have been selected with a view to their efficiency as organs for the performance of the functions of a perfected society.

But this Eden would have its serpent, and a very subtle beast too. Man shares with the rest of the living world the mighty instinct of reproduction and its consequence, the tendency to multiply with great rapidity. The better the measures of the administrator achieved their object, the more completely the destructive agencies of the state of nature were defeated, the less would that multiplication be checked. Thus as soon as the colonists began to multiply, the administrator would have to face the tendency to the reintroduction of natural struggle into his artificial fabric, in consequence of the competition, not merely for the commodities, but for the means of existence. When the colony reached the limit of possible expansion, the surplus population must be disposed of somehow; or the fierce struggle for existence must recommence and destroy the artificially created system.

218. Appraisals of Population

A) BY AN EARLY HISTORIAN ²

And thy seed shall be as the dust of the earth, and thou shalt spread abroad to the west, and to the east, and to the north, and to the south; and in thee and thy seed shall all the nations of the earth be blessed.

B) BY AN EARLY POET ³

Lo, children are a heritage of Jehovah;
And the fruit of the womb is his reward.
As arrows in the hands of a mighty man
So are the children of youth.
Happy is the man that hath his quiver full of them.

C) BY ARISTOTLE ⁴

There is an inconsistency in equalizing the property and not regulating the number of the citizens. One would have thought that it was even more necessary to limit population than property; and that the limit should be fixed by calculating the chances of mortality in the children, and of sterility in married persons. The neglect of this sub-

²From Gen. 28:14 (800 B.C.).

³From Ps. 127:3-5 (200 B.C.).

⁴Adapted from *The Politics*, II, 6 (357 B.C.); tr. by B. Jowett.

ject, which in existing states is so common, is a never-failing cause of poverty among the citizens, and poverty is the parent of revolution and crime.

D) BY SIR WILLIAM TEMPLE⁵

The true and natural ground of trade and riches is the number of people in proportion to the compass of the ground they occupy. This makes all things necessary to life dear, and forces men to industry and parsimony. These customs which grow first from necessity become with time to be habitual to the country. And wherever they are so, that place must grow great in traffic and riches, if not disturbed by some accident or revolution, by which the people come either to be scattered or destroyed. When things are once in motion trade begets trade as fire does fire; and people go much where people have already gone.

E) BY SIR JOSIAH CHILD⁶

You cry up the Dutch to be a brave people, rich and full of cities, that they swarm with people as bee-hives with bees; if a plague come they are filled up presently and such like; yet they do all this by inviting all the world to come and live among them. You complain of Spain, because their inquisition is so high, they'll let nobody come and live among them, and that's the main cause of their weakness and poverty. Will not a multitude of people strengthen us as well as the want of it weaken them? Sure it will.

F) BY DANIEL DEFOE⁷

Whence is all this poverty of a country? 'Tis evident 'twas want of trade and nothing else. Trade encourages manufacture, prompts invention, increases labor and pays wages. As the number of people increase, the consumption of provisions increases. As the consumption of provisions increases, more lands are cultivated. In a word as the land is employed the people increase, of course, and the prosperity of a nation rises and falls just as trade is supported or decayed. 'Tis by their multitude, I say, that all wheels of trade are set on foot, the manufacture and produce of the land and the sea are finished, cured and fitted for the markets abroad; 'tis by the largeness of their gettings that they are supported.

⁵Adapted from "An Essay upon the Advancement of Trade in Ireland," in *Works*, III (1673), 2-3.

⁶Adapted from "England's Great Happiness" (1677), in McCulloch's *Select Collection of Early English Tracts on Commerce*, p. 263.

⁷Adapted from "Extracts from a Plan of English Commerce, Being a Complete Compendium of the Trade of This Nation" (1730) in McCulloch's *Select Collection of Scarce and Valuable Tracts on Commerce*, pp. 112-13.

G) BY SIR JAMES STEUART ⁸

The generative faculty resembles a spring with a loaded weight, which always exerts itself in proportion to the diminution of resistance; when food has remained some time without augmentation or diminution the spring is overpowered; the force of it becomes less than nothing, inhabitants will diminish at least in proportion to the over charge. If on the other hand food be increased the spring will exert itself in proportion as the resistance diminishes; people will begin to be better fed; they will multiply, and in proportion as they increase in numbers, the food will become scarce again.

H) BY ARTHUR YOUNG ⁹

In spite of the assertions of all political writers for the last twenty years, who place the prosperity of a nation in the greatest possible population, an excessive population without a great amount of work and without abundant productions is a devouring surplus for a state; for this excessive population does not get the benefits of subsistence, which, without this excess, they would partake of; the amount of work is not sufficient for the number of hands; and the price of work is lowered by the great competition of the laborers, from which follows indigence to those who cannot find work.

I) BY ADAM FERGUSON ¹⁰

The number in which we should wish mankind to exist is limited only by the extent of place for their residence and of provision for their subsistence and accommodation; and it is commonly observed that the numbers of mankind in every situation do multiply up to the means of subsistence. To extend these limits is good; to narrow them is evil; but although the increase in numbers may thus be considered as object of desire, yet it does not follow that we ought to wish the species thus indefinitely multiplied.

J) BY A "MUCH HARMED" NATIVE OF BRITISH INDIA ¹¹

I am humble man and great family, large sons and daughters with magnificent appetites. Much often have I written the great notorious

⁸Adapted from *Principles of Political Economy, Being an Essay on the Science of Domestic Policy in Free States* (1767), p. 20.

⁹Adapted from *The Farmer's Tour Through the East of England* (1771), p. 429.

¹⁰Adapted from *Principles of Moral and Political Science* (1792), II, pp. 409-10.

¹¹A letter from Ram Sylup, a native of India, to an ex-officer of the government, asking for a position.

gentlemen who have terribly failed in goodness; therefore, your honor will not be considerably angered with me, for because though not altogether dead for want of money, I am much harmed man and magnanimously anxious for display of my talents.

It is great sheer pity, all my big education is going horribly cast aside. Your honor, I am like one man in what your English poet calls "born blowing unseen" and your honor is the P. S. Department with its great sercelated departments—building big roads and bridges which falling down, no matter for that, makes the money—and because your honor is now completely dismissed for procuring the cash, yet still much influence is with your honor in the wide place of area of P. S. Dept.

Your kind honor will pass over the fury of my great petition. I am telling you of much troubles, experiments, and much lirmed things. I got much studies in big Dichonharry on grate talents on all things. But this manifold family which I have generated, God knows every year she does my wife make incremental successions to the ramifications of this generation. My age was nineteen when I did begin to have children and now my age is thirty-four and only one child dead, and by the Lord there will be no end to this mischief.

B. THE MALTHUSIAN THEORY

219. The Theory of Population¹²

BY THOMAS ROBERT MALTHUS

In an inquiry concerning the improvement of society, the mode of conducting the subject which naturally presents itself is (1) to investigate the causes which have hitherto impeded the progress of mankind towards happiness; and (2) to examine the probability of the total or partial removal of these causes in the future. The principal object of this essay is to examine the effects of one great cause intimately united with the very nature of man. This is the constant tendency of all animated life to increase beyond the nourishment provided for it.

Through the animal and vegetable kingdoms Nature has scattered the seeds of life abroad with the most profuse and liberal hand. If the germs of existence contained in the earth could freely develop themselves, they would fill millions of worlds in the course of a few thousand years. Necessity, that imperious, all-pervading law of nature, restrains them and man alike within prescribed bounds.

¹²Adapted from *An Essay on the Principle of Population, or a View of the Past and Present Effects on Human Happiness* (6th ed.; 1826), I, 1-24.

The effects of nature's check on man are complicated. Impelled to the increase of his species by an equally powerful instinct, reason interrupts his career, and asks him whether he may not bring beings into the world, for whom he cannot provide the means of support. If he hear not this suggestion, the human race will be constantly endeavoring to increase beyond the means of subsistence. But as, by that law of our nature which makes food necessary to the life of man, population can never actually increase beyond the lowest nourishment capable of supporting it, a strong check on population, namely, the difficulty of acquiring food, must be constantly in operation. This difficulty must fall somewhere, and must necessarily be severely felt in some or other of the various forms of misery by a large portion of mankind. This conclusion will sufficiently appear from a review of the different states of society in which man has existed. But the subject will be seen in a clearer light, if we endeavor to ascertain what would be the natural increase in population, if left to exert itself with perfect freedom.

Many extravagant statements have been made of the length of the period within which the population of a country can double. To be perfectly sure we are far within the truth, we will take a slow rate, and say that population, when unchecked, goes on doubling itself every twenty-five years, or increases in a geometrical ratio. The rate according to which the production of the earth may be supposed to increase, it will not be so easy to determine. However, we may be perfectly certain that the ratio of their increase in a limited territory must be of a totally different nature from the ratio of the increase in population. A thousand millions are just as easily doubled every twenty-five years by the power of population as a thousand. But the food will by no means be obtained with the same facility. Man is confined in room. When acre has been added to acre till all the fertile land is occupied, the yearly increase in food must depend upon the melioration of the land already in possession. This is a fund, which, from the nature of all soils, instead of increasing must be gradually diminishing. But population, could it be supplied with food, would go on with unexhausted vigor; and the increase in one period would furnish a power of increase in the next, and this without any limit. If it be allowed that by the best possible policy the average produce could be doubled in the first twenty-five years, it will be allowing a greater increase than could with reason be expected. In the next twenty-five years it is impossible to suppose that the produce could be quadrupled. It would be contrary to our knowledge of the properties of land.

Let us suppose that the yearly additions which might be made to the former average produce, instead of decreasing as they certainly would do, were to remain the same; and that the product of the land might be increased every twenty-five years, by a quantity equal to what it at present produces. The most enthusiastic speculator can not suppose a greater increase than this. Even then the land could not be made to increase faster than in an arithmetical ratio. Taking the whole earth, the human species would increase as the numbers 1, 2, 4, 8, 16, 32, 64, 128, 256, and subsistence as 1, 2, 3, 4, 5, 6, 7, 8, 9. In two centuries the population would be to the means of subsistence as 256 to 9; in three centuries as 4096 to 13, and in two thousand years the difference would be almost incalculable.

In this supposition no limits whatever are placed to the produce of the earth. It may increase forever and be greater than any assignable quantity; yet still the power of population, being in every period so much greater, the increase of the human species can only be kept down to the level of the means of subsistence by the constant operation of the strong law of necessity, acting as a check upon the greater power.

But this ultimate check to population, the want of food, is never the immediate check except in cases of famine. The latter consists in all those customs, and all those diseases, which seem to be generated by a scarcity of the means of subsistence; and all those causes which tend permanently to weaken the human frame. The checks may be classed under two general heads—the preventative and the positive.

The preventative check, peculiar to man, arises from his reasoning faculties, which enables him to calculate distant consequences. He sees the distress which frequently presses upon those who have large families; he cannot contemplate his present possessions or earnings, and calculate the amount of each share, when they must be divided, perhaps, among seven or eight, without feeling a doubt whether he may be able to support the offspring which probably will be brought into the world. Other considerations occur. Will he lower his rank in life, and be obliged to give up in great measure his former habits? Does any mode of employment present itself by which he may reasonably hope to maintain a family? Will he not subject himself to greater difficulties and more severe labor than in his present state? Will he be able to give his children adequate educational advantages? Can he face the possibility of exposing his children to poverty or charity, by his inability to provide for them? These considerations prevent a large number of people from pursuing the dictates of nature.

The positive checks to population are extremely various, and include every cause, whether arising from vice or misery, which in any degree contributes to shorten the natural duration of human life. Under this head may be enumerated all unwholesome occupations, severe labor, exposure to the seasons, extreme poverty, bad nursing of children, great towns, excesses of all kinds, the whole train of common diseases, wars, plagues, and famines.

The theory of population is resolvable into three propositions:

- (1) Population is necessarily limited by the means of subsistence.
- (2) Population invariably increases where the means of subsistence increase, unless prevented by some very powerful and obvious checks.
- (3) These checks which keep population on a level with the means of subsistence are all resolvable into moral restraint, vice, and misery.

220. Malthusianism a Support of Capitalism¹³

BY PIERCY RAVENSTONE

We have new doctrines preached to us. Men, it is now discovered, grow more readily than plants. Human beings overrun the world with the rapidity of weeds. Hence the hopeless misery. The earth groans under the weight of numbers. The rich, it is now discovered, give bread to the poor. Labor owes its support to idleness. Those who produce everything would starve but for the assistance of those who produce nothing. The numbers of the poor are to be checked by all possible means: every impediment is to be placed in the way of their marriages, lest they should multiply too fast for the capital of the country. The rich, on the contrary, are to be encouraged, everything is to be done for their benefit. For though they produce nothing themselves, their capital is the cause of everything produced; it gives fertility to our fields and fecundity to our flocks.

These doctrines are new. It was long the established creed of every statesman, that in the extent of its population consisted the strength, the power, and the opulence of every nation; that it was therefore the duty of every sovereign to increase, by all practicable means, the number of the people committed to his charge. On whatever other points statesmen and legislators might differ, on this they were all agreed. From Lycurgus to Montesquieu the doctrine underwent no change. Marriage was everywhere held up as honorable; children were considered as entitling their fathers to peculiar privilege and the mark of scorn was imprinted on the selfish being who re-

¹³Adapted from *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy* (1821), pp. 5-24.

mained single. Poverty gave no exception; it rather increased the obligation. His country gratefully received in children the contribution of him who had nothing else to give. The wealth of a nation consisted in the number and strength of its peasantry. Men did not dream that riches could be separated from numbers. By these newer doctrines pestilence and famine are ministers of God, executing his eternal decrees, and rescuing us from the necessity of overwhelming wretchedness. The doctrine has robbed Divinity of all the charities of his nature, leaving to him little else than the functions of an enemy of mankind.

The great and the rich could not be much offended at discovering that whilst their rights were augmented, they were entirely absolved from the performance of those actions which the less enlightened judgment of other times had classed among the most important and essential of their duties. To be merciful to our own faults, to believe our idle expenses meritorious, to set up selfishness as the idol of our idolatry, and to drive away charity, are duties not very repugnant to our nature. They demand no sacrifice in their performance. The temple of virtue will be crowned with votaries, if it be made to lead to the shrine of self-interest.

Those severer morals which taught that the poor were equally partakers of the divine nature with the rich; that they were equally fashioned in the image and likeness of God; that their industry being the cause of all that was produced, and the rich being in reality only pensioners on their bounty, the latter were only trustees for the good of society; that their wealth was given not for their own enjoyment, but for its better distribution through the different channels of society, were not likely long to maintain their hold on the minds of the wealthy against those sedative doctrines which flattered the passions, converted faults into good qualities, and made even conscience pander to vices.

It is an old and dreary system which represents our fellow-creatures as so many rivals and enemies, which makes us believe that their happiness is incompatible with our own, which builds our wealth on their poverty, and teaches that their numbers cannot consist with our comforts and enjoyments; which would persuade us to look on the world as a besieged town, where the death of our neighbors is hailed with secret satisfaction since it augments the quantity of provisions likely to fall to our share. To consider misery and vice as mere arrangements of the Divinity to prevent the inconvenience of a too great population of the world, is to adopt predestination in its worst form. In committing crimes we should only be executing the will of God; in alleviating the distresses of others, in feeding the

hungry and clothing the naked, we should be running counter to the decrees of Providence.

But before we can adopt these conclusions, it behooves us to examine on what foundation the system is built. We must remember that it is the common interests of all members which holds society together. Misery is not of God's creation; vice is not the minister of His will. I shall show that the increase in numbers in the human species is wholly uninfluenced by human institutions. It is by no means so varied in its operation as Mr. Malthus has supposed; it affords no ground for alarm; it calls for no restrictive measures, since the increase in subsistence is entirely dependent on the increase in numbers. Every man brings into the world the means of producing his own sustenance. Wherever the numbers of the people increase more rapidly than the means of subsistence, the fault is not with Providence, but in the regulations of society. Capital is no addition to the wealth of a nation; it conduces nothing to the improvement of the industry; it is merely a new distribution of the property of society, beneficial to some, wholly because it is injurious to others.

221. Malthus versus the Malthusians¹⁴

BY LEONARD T. HOBHOUSE

The appearance of the biological theory of progress, of which we have been hearing much of late, was announced by the terrible douche of cold water thrown by Malthus on the speculative optimism of the eighteenth century. The generation preceding the French Revolution was a time of buoyant and sanguine outlook. There floated before men the idea of an age of reason when men should throw off the incubus of the past and resume a life in accordance with nature in a social order founded on a rational consideration of natural rights. Nature both in the politics and the economics of the time assumes a half personal and wholly benevolent character while human restrictions, human conventions, play the part of the villain in the piece. At this point Malthus intervened by calling attention to a "natural" law of great significance. This was the law that human beings multiplied in a geometrical ratio; that it was only by the checks of famine, pestilence, and war that they were prevented from overspreading the earth, and that, to cut the matter short, whatever the available means of subsistence, mankind would always, in the absence of prudential checks, multiply up to the limit at which those means became inadequate. True, the means

¹⁴Adapted from *Social Evolution and Political Theory*, pp. 13-16. Copyright by the Columbia University Press, 1911.

of subsistence might be extended. New countries might be opened up. New sources of food supply might be discovered. Every such extension, the Malthusian argued, would only redouble the rate of multiplication. Checks would cease, men and women would marry earlier; very soon population would again be pressing on the means of subsistence. The advance in civilization told in the same direction. Population was increasing, must increase. It could be held in check only by the one great barrier of the subsistence limit against which the fringe of advancing population must forever beat in misery. There could be no solution of the social question; for in the nature of things there must be a line where the surf of the advancing tide breaks upon the shore, and that shore was death from insufficiency of nourishment. You observe that in summarizing the argument I speak partly of Malthus, partly of the Malthusians. Malthus himself, particularly in his second edition, laid stress on the prudential checks. He cannot fairly be accused of fostering the pessimistic views often fastened upon him. But for many a long year after he wrote, the efficacy of the prudential checks appeared to be very slight. It was his first edition that was generally absorbed and that profoundly influenced social thought for nearly a century. It was not till the seventies that there came into operation that general fall in the birth-rate, which has justified Malthus against the Malthusians, has put the calculations of the future growth of population on a radically different basis, and has brought about among other things a complete reconstruction of the biological argument against progress. I venture to think we may draw a lesson from the fate of Malthusianism. Mathematical arguments drawn from the assumption that human beings proceed with the statistical regularity of a flock of sheep are exceedingly difficult to refute in detail, and yet they rest on an insecure foundation. Man is not merely an animal. He is a rational being. The Malthusian theory was one cause of the defeat of its own prophecies. It was the belief that population was growing too fast that operated indirectly to check it. Those who fear that population is now growing too slowly, may take some comfort from the reflection. We are not hastily to assume inevitable tendencies in human society, because the moment society is aware of its tendencies a new fact is introduced. Man, unlike other animals, is moved by the knowledge of ends, and can and does correct the tendencies whose results he sees to be disastrous. The alarmist talk of race suicide may serve its purpose if only by admonishing us of the fate of a theory based on what appears to be a most convincing biological calculation.

222. Population Pressure and War¹⁵

BY EDWARD ALSWORTH ROSS

A century ago Malthus startled the world by demonstrating that our race naturally multiplies faster than it can increase its food supply, with the result that population tends ever to press painfully upon the means of subsistence. So long as mankind reproduces freely, numbers can be adjusted to resources only by the grinding of destructive agencies, such as war, famine, poverty and disease. To be sure, this ghastly train of ills may be escaped if only people will prudently postpone marriage. Since, however, late marriage calls for the exercise of more foresight and self-control than can be looked for in the masses, Malthus painted the future of humanity with a somberness that gave political economy its early nickname of "the dismal science."

Malthus is not in the least "refuted" by the fact that, during his century, the inhabitants of Europe leaped in number from one hundred and eighty-seven millions to four hundred millions, with no increase but rather diminution of misery. It is true, unprecedented successes in augmenting the food supply have staved off the overpopulation danger. Within a lifetime, not only have the arts of food raising made giant strides, but, at the world's rim, great virgin tracts have been brought under the plow, while steam hurries to the larders of the Old World their surplus produce. But such a bounty of the gods is not rashly to be capitalized. While there is no limit to be set to the progress of scientific agriculture, no one can show where our century is to find its Mississippi Valley, Argentina, Canada, or New Zealand, to fill with herds or farms. The vaunted plenty of our time adjourns but does not dispel the haunting vision of a starving race on a crowded planet.

Nevertheless, the clouds that hung low about the future are breaking. The terrible Malthus failed to anticipate certain influences which in some places have already so far checked multiplication as to ameliorate the lot of even the lower and broader social layers. The sagging of the national birth-rate made its first appearance about fifty years ago in France, thereby giving the other peoples a chance to thank God they were not as these decadent French. But the thing has become so general that today no people dares to point the finger of scorn. In 1878 the fall of the birth-rate began in England. During the eighties it invaded Belgium, Holland, and Switzerland. In 1889 it seized with great virulence upon Australia.

¹⁵Adapted from *Changing America*, pp. 32-49. Copyright by The Century Company, 1912.

Just before the close of the century Finland, Italy, and Hungary fell into line. In Germany and Austria it is only within four or five years that the economists have begun to discuss "our diminishing fecundity." In all Christendom only Russia, the Balkan states and French Canada show the old-fashioned birth-rates of forty, fifty, or even fifty-five, per thousand. The tendency in the United States is best revealed in the diminishing number of children under five years to each thousand women of child-bearing age. The decline from 1860 to 1890 is 24 per cent.

Owing to the fact that the death-rate has been falling even faster than the birth-rate, there is, so far, no slackening in the growth of numbers. Indeed, part of the fall in the birth rate merely reflects the increasing proportion of aged.

The forces reducing the death-rate are by no means the same as those cutting down the birth-rate, nor have they the same sphere of operation. Deaths are fewer because of advances in medicine, better medical education, public hospitals, pure water supply, milk inspection, housing reform and sanitation. Births are rarer owing to enlightenment, the ascent of women, and individualistic democracy. The former may be introduced quickly, from above. The latter await the slow action of the school, the press, the ballot, the loosening of custom.

An abrupt fall in the birth-rate of from 10 to 20 per cent among the four hundred million bearers of the Occidental torch is a phenomenon so vast and so pregnant as to excite the liveliest speculation. Some lay it to physiological sterility produced by alcohol, city life and over-civilization. There are, indeed, in some quarters, notably in New England, evidences of a decline in female fertility; but, on the whole, the lower birth-rate reflects the smaller size of families rather than the greater frequency of childless couples.

Others insist that vice, club life, the comfortable celibacy of cities, and the access of women to the occupations are turning people away from wedlock. It is true that the proportion of single women is increasing with us. Still, few peoples are so much married as Americans, and, for all that, their birth-rate has fallen fast and fallen far. Michigan, which is about as addicted to the married state as any white community in the world, has only two-thirds the fecundity of England and half that of Hungary.

Perhaps the master-force of our time is democracy. The barriers of caste are down so that more and more a man's social standing depends upon himself. The lists of life are open to all, and the passion to "succeed" grows with the value of the prizes to be won. Never before did so many common people strain to reach a higher

rung in the social ladder. But prudence bids these eager climbers avoid whatever will impede one's ascent or imperil one's footing. Children are incumbrances, so the ambitious dread the handicap of an early marriage and a large family. Even the unselfish, whose aim is to assure their children a social position equal to or superior to their own, will see to it that there are not more children than they can properly equip.

The effect of democracy is reinforced by the break-up of custom. As fixed class distinctions fade out, people cease to be guided by the traditional standard of comfort. It is no longer enough to live as father and mother lived. Wants and tastes, once confined to the social elect, spread resistlessly downward and infect the masses. Here the decencies, there the comforts, yonder the vanities of life compete with the possible child and bar it from existence.

The great movement that has burst the fetters on woman's mind and opened to her so many careers exalts her in the marriage partnership and causes the heavy price of motherhood to be more considered by her husband as well as by herself.

However we account for the fall in the birth-rate, there is no question as to its consequences. The decline registers itself in a rising plane of comfort, a growth of small savings, and a wider diffusion of ownership. Owing to the better care enjoyed by the aged when they do not have to compete for attention with an over-large brood of wailing infants, there is a striking increase in longevity. A greater proportion of lives are rounded out to the Psalmist's term. There is also a wonderful saving of life among infants, for often prolificacy does nothing but fill the churchyards with wee mounds. When we consider that in 1790 there were in this country just twice as many children under 16 to adults over 20 as there are today we understand why the law limits child labor and insists on keeping children in school.

But the supreme service of forethoughted parenthood is that it bids fair to deliver us from the overpopulation horror, which was becoming more imminent with every stride in medicine or public hygiene. Most of the Western peoples have now an excess of births over deaths of 1 per cent a year. If even a third of this increase should find a footing over sea, then home expansion would still be such that, at a future date no more remote from us than the founding of Jamestown, Europe would groan under a population of three billions, while the United States of that day, with twice as many people as Europe now has, would be to China what China is to the present United States. Besides its attendant misery and degradation, population pressure sharpens every form of struggle among

men—competition, class strife, and war—and the dream of a moral redemption of our race would vanish into thin air if the enlightened peoples had failed to meet the crisis created by the reduction of mortality.

Once it seemed as if man's propensity to multiply foredoomed him to live ever in the presence of vast immediate woe. However smiling the gardens of Daphne, they had always to slope down into a huge malodorous quagmire of wretchedness. The wheel of Ixion, the cup of Tanatlos, symbolized humanity striving ever by labor and ingenuity to relieve itself of a painful burden, only to have that burden inexorably rolled back upon it by its own fatal fecundity.

Now that cheap travel stirs the social deeps and far-beckoning opportunity fills the steerages, immigration becomes ever more serious to the people that hopes to rid itself at least of slums, "masses" and "submerged." What is the good of practicing prudence in the family if hungry strangers may crowd in and occupy at the banquet table of life the places reserved for its children? Shall it, in order to relieve the teeming lands of their unemployed, abide in the pit of wolfish competition and renounce the fair prospect of a growth in suavity, comfort, and refinement? If not, then the low-pressure society must not only slam its doors upon the indraught, but must double-lock them with forts and ironclads, lest they burst open by assault from some quarter where "cannon food" is cheap.

The rush of developments makes it certain that the vision of a globe "lapt in universal law" is premature. If the seers of the mid-century who looked for the speedy triumph of free trade had read their Malthus aright, they might have anticipated the tariff barriers that have risen on all hands within the last thirty years. So, today, one needs no prophet's mantle to foresee that presently the world will be cut up with immigration barriers which will never be leveled until the intelligent accommodation of numbers to resources has greatly equalized population pressure all over the globe. The French resent the million and a third aliens that have been squeezed into hollow and prosperous France by pressure in the neighbor lands. The English restrict immigration from the Continent. The Germans feel the thrust from the overstocked Slavic areas. The United States, Canada, Australia and South Africa are barring out the Asiatic. Dams against the color races, with spillways of course for students, merchants, and travelers, will presently enclose the white man's world. Within this area minor dams will protect the high wages of the less prolific peoples against the surplus labor of the more prolific.

Assuredly, every small-family nation will try to raise such a dam and every big-family nation will try to break it down. The outlook for peace and disarmament is, therefore, far from bright. One needs but compare the population pressures in France, Germany, Russia and Japan to realize that, even today, the real enemy of the dove of peace is not the eagle of pride or the vulture of greed but the stork!

C. THE COMING OF THE IMMIGRANT

223. The Immigrant Invasion¹⁶

BY FRANK JULIAN WARNE

At the time of the appearance of the comet in 1910 there was in progress the most remarkable and in many ways the most wonderful invasion of one country by peoples of foreign countries that the world had ever seen. In the very month of May, when the comet's appearance in the heavens was being heralded in the newspapers, as many as one hundred and fifty thousand representatives of different races and countries of the world were entering the immigrant ports of the United States. They were equal to one hundred and fifty full regiments of one thousand each; they were double the entire fighting strength of the United States Army. More than one million people from all the countries on the globe were that year passing in a seemingly never-ending stream into the United States.

They came from the British and the Spanish Americas, from Europe and from Africa, from Asia and from India, from the islands of the Pacific and the islands of the Atlantic. From the United Kingdom and the Russian Empire, from the Scandinavian countries and the Netherlands, from the German Empire and the Dual Kingdom of Austria-Hungary, from Turkey in Europe and Turkey in Asia, from Italy and China and Japan, they came. There was not a single geographical or politically organized area of importance from which they did not come. England, Ireland, Scotland, Wales, Norway, Sweden, Denmark, Holland, Belgium, Switzerland, France, Spain, Portugal, Roumania, Greece, Armenia, Persia, Syria, Sicily and Sardinia, the Cape Verde and Azores Islands, the Canary and Balearic Islands, British Honduras, Tasmania, and New Zealand, the Philippines, Hawaii, the East and the West Indies, Cuba, Canada, Mexico, and South and Central American countries—each and all and more were represented.

¹⁶Adapted from *The Immigrant Invasions*, pp. 1-21. Copyright by Dodd, Mead & Co., 1913.

The sources of this stream of immigration are four great stocks of the human race—the Aryan, the Semitic, the Sinitic, and the Sibiric. From the homes of these, as they have scattered themselves among the Teutonic, Celtic, Slavonic, Lettic, Italic, Hellenic, Illyric, Indo-Iranic, Chaldean, Chinese, Japanese, Finnic, and Tartaric groups, this stream is pouring. The peoples composing it are Scandinavians, Dutch, Flemish, Germans, English; Irish, Welsh, Scotch; Bohemians, Dalmatians, Moravians, Croatians, Poles, Slovenians, Bulgarians, Russians, Servians, Ruthenians, Montenegrins, Bosnians, Herzegovinians, Slovaks; Letts and Lithuanians; French, Italians, Portuguese, Roumanians, and Spaniards; Greeks; Albanians; Armenians, Persians, and Gypsies; Hebrews and Syrians; Chinese; Japanese and Koreans; Finns and Magyars; and Turks. Besides, we have coming to us Berbers and Arabs from northern Africa, Bretons from western France, Esthonians from western Russia, Eskimos from western Alaska, Spanish Americans from South America. Not even all these exhaust the multitudinous sources contributing to our foreign-born population.

Unlike the invasions of other centuries and of other countries, the present-day immigration to the United States is not by organized armies coming to conquer by the sword. It is made up of detached individuals, or at most, of family or racial groups, afoot, the sword not only sheathed but also entirely discarded by those who have no idea of battling with arms for that which they come to seek. They do not come as armed horsemen, with their herds of cattle and skin-canopied wagons. Nor do they present themselves at our doors in "great red ships," with the ensign of the rover hanging from the topmast, and clad in chain-mail shirts and with helmets.

More than twenty-eight million have entered the United States from all parts of the world during the ninety years since 1820! In the course of the nineteenth century, and the first decade of the twentieth century, there came more than five million from Germany, four million from Ireland, more than three million from each of Austria-Hungary, and Italy, three million from England, Scotland, and Wales; nearly two and one-half million from Russia; nearly two million from Norway, Denmark, and Sweden; and about five hundred thousand from France.

More than twenty-five million immigrants came within the sixty years since 1850; and more than nineteen million came within the last thirty years. The ten years ending with 1910 gave us a total immigration exceeding 8,795,000, nearly five million of those arriving within the past five years. In the single year 1910 the number of arrivals exceeded one million by 41,000; in the twelve months

three years before they had reached 1,285,000, this being the largest single yearly inflow of foreign born in the history of the country.

Taking the average for the past ten years, we find that there came annually more than eight hundred and seventy-nine thousand immigrants; for every month more than seventy-three thousand; for every day, Sundays and holidays included, two thousand four hundred and forty, and for every time the clock struck the hour, day and night, one hundred persons born in some foreign country landed on the shores of the United States.

Truly a wonderful invasion! A stupendous army! An army that has been marching continually all these years—an army whose ranks, although changing racially, have not been depleted but have steadily and at times alarmingly increased in numbers as the decades have gone by. Here is a phenomenon before which we must stand in awe and amazement when contemplating its consequences to the human race!

Think you that any such numbers invaded the Roman world when the Huns poured in from the East? Was Attila's army one-half, even one-tenth, as large when it overran Gaul and Italy? Did the Saxons in the sixth century invade England in any such numbers? Or, did William the Conqueror lead any such army in the Norman invasion of England in the eleventh century? And yet, upon the peoples of those countries the mark of the invader is seen to this day. Think you that America alone will escape the consequences?

Let us look at the volume of this invasion from another angle. There were in the United States in 1910 more than 13,500,000 persons who had been born in some foreign country. That is, one out of every seven of our population came here, not through having been born here, but through immigration. The largest contribution was from Germany, the next largest from Russia; then came Ireland and Italy in a close race for third place, the number of the former exceeding those from Italy by less than ten thousand. Austria, including Bohemia and a part of what formerly was Poland, held fifth place; Canada was in sixth and England in seventh place, Sweden in eighth, Hungary in ninth, and Norway in tenth.

These ten countries contributed more than 11,600,000 of the 13,500,000 or all but 1,900,000 of our foreign-born. Their proportion of the total was about 86 per cent. The other countries or geographical and political divisions represented in the foreign-born population of the United States in 1910 were Scotland, Wales, Denmark, Holland, Belgium, Luxemburg, Switzerland, Portugal, Spain, France, Finland, Roumania, Bulgaria, Servia, Montenegro, Turkey,

Greece, Newfoundland, Cuba, West Indies, Mexico, Central America, South America, Japan, China, India, Asia, Africa, Australia, Atlantic Islands, Pacific Islands, and other countries not specified.

Religiously they are believers in Roman and Greek Catholicism, Protestantism in its manifold forms and variations, Mohammedanism, Armenianism, Buddhism, Confucianism, Judaism, Shamanism, Islamism, Shintoism, and hundreds of diversified sects, some with such strange names as Chiah, Sunni, Parsee, Nestorian, Maronite, Druse, Osmanlis, Laotse, and so on.

Linguistically they are German, Dutch, Scandinavian, including ric, Slavic, including Russian, Serbo-Croatian, Polish, and Bohemian, Danish, Norwegian, and Swedish, Flemish, English, Gaelic, Cymrian; French, Italian, Spanish, Roumanian, Portuguese, Rhetoroman, Greek, Albanian, Lithuanian, Lettic, Armenian, Persian, Yiddish, Semitic, Turkish, Finnish, Magyar, Chinese, Japanese, Korean, Mexican, Spanish American, and other groups distinguished by the language they speak. Among these are such strange and unfamiliar dialects as Friesian, Thuringian, Franconian, Swabian, Alsatian, Wallon, Gascon, Languedocian, Rhodanian, Catalan, Gallego, Friulan, Gegish, Toskish, Pamir, Caspian, Syriac, Aramaic, Shkipetar, and so on.

Some conception of the significance of the numerical strength of the foreign-born in the United States is gained by means of a few simple comparisons. They number over three and one-half millions more than all the negro population of the entire country. They equal more than twice the total population, and nearly three times that of the native, of the six New England States; they would populate the seven states of Minnesota, Iowa, Missouri, the two Dakotas, Nebraska, and Kansas, with their present density, and still have an extra 1,880,000; they supply a population 1,300,000 in excess of the total found today in the South Atlantic division, including, besides the District of Columbia, also Delaware, Maryland, the two Virginias, the two Carolinas, Georgia, and Florida.

Considering the native population only, which includes also the children born here of foreign-born parents, our total foreign-born equals all the natives in the twenty-two states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Delaware, Florida, the two Dakotas, Kansas, Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, California, Oregon, and Washington.

224. Immigration in a Single Year¹⁷

BY F. A. OGG

It is not easy to conceive what our immigration has come to be. The figures are too stupendous to be grasped by the mind. Let one who has sat in the magnificent Stadium at Cambridge, as one of the 40,000 spectators at a Harvard-Yale football game, reflect that if the immigrants entering our ports during the fiscal year 1906 were brought together, they would make a throng twenty-five and a half times as large as that which crowds every available foot of space around the great oval. Let him consider that the number admitted in this twelvemonth from Norway and Sweden alone would more than fill the Stadium; that the number from Germany would do the same; that the influx from Great Britain would fill it two and one-half times. That from Russia would fill it more than five times; that from Austria-Hungary would fill it more than six times; and the contributions from Italy would do it seven times with people to spare. Let him further call to mind that, on the average, the Stadium could be packed with the aliens who are landed at Ellis Island every seventeen days throughout the year.

Then let him consider that the total number of immigrants admitted in 1906 would nearly serve to populate either the city of Philadelphia, or the cities of Boston and Baltimore combined; that, in fact it would people all Maryland, or all Nebraska, or the whole region occupied by Arizona, New Mexico, Utah, Idaho, Wyoming, and Montana. These six states and territories have an aggregate area of 649,320 square miles, which is nearly 18 per cent of the total area of the United States.

225. The Current Status of Immigration¹⁸

For three years before the outbreak of the war the United States drew more than 1,000,000 immigrants annually from foreign countries, chiefly from Southeastern Europe. For the four years of the war the average increment from this source was only about 260,000 yearly, against which must be placed an average annual loss by emigration of over 120,000.

Note the following comparisons: There arrived in 1914, 1,218,480 persons from overseas; in 1915, 326,700; in 1916, 298,826; in 1917, 295,403; in 1918, 110,618. There departed from our shores in 1914, 303,338; in 1915, 204,074; in 1916, 129,765; in 1917, 66,277; in 1918, 94,585. By subtraction we get the net gain for 1914

¹⁷ From an article in *The World's Work*, XIV, 8879-86. Copyright, 1907.

¹⁸ Adapted from *Problems of Industrial Readjustment in the United States*, pp. 25-28. Copyright by the National Industrial Conference Board, 1910.

through immigration of 915,142; in 1915, of 122,626; in 1916, of 169,061; in 1917, of 229,126; and in 1918, of 16,033.

In other words the great stream of European immigration to this country was abruptly cut down by the war to less than one-third of its normal volume. In this way a theoretical shortage of over 2,000,000 workers was created during the four-year war period. Obviously it is a question of importance as to whether this flow will be promptly resumed, whether it will continue restricted, or whether there will be a great outward movement of workers from this country to their native lands.

In the opinion of some critics the enormous task of rehabilitation in Europe, coupled with the serious reduction in man-power, will for a long time preclude the resumption of immigration on anything like the pre-war scale. That the war has heavily reduced the labor supply of Europe is apparent. The dead alone are estimated at 7,000,000; those disabled at 8,000,000 more. Should the demand for labor in Europe be normal, such reduction in man power would mean an acute labor shortage. Against this reduction must be considered a possible reduction in purchasing power, and consequently in the demand for commodities. In Russia it seems certain that there will be no great increase in the demand for employment. France seems able to utilize all her labor supply and to draw from other countries. In Great Britain the problem depends not so much on home consumption as on ability to maintain foreign markets. It is complicated because of the great increase in the number of women employed in industry during the war. But on the whole a large demand for British labor seems a reasonable expectation. In Germany a large demand for labor seems probable if a stable government is maintained.

On the whole no immediate resumption of immigration from Europe on a large scale seems probable. Indeed, some are of the opinion that an exodus of laborers from the United States in considerable numbers is likely to occur. An estimate made by the Chamber of Commerce of the United States indicates that at least a million people are disposed to leave the country. Despite high wages here and unsettled economic and political conditions abroad it is an open question whether many foreigners may not, because of the high wages they have earned and the savings they have made, seek to return to their native countries where their savings are at a premium.

Immigration and emigration are also in large measure dependent upon resumption of normal transatlantic steamship service. This is not likely for some time. Of far greater consequence is the attitude

of European governments toward their emigration policies; this is dependent upon considerations of economic, fiscal, and military policy still undetermined.

D. IMMIGRATION AND INDUSTRIAL DEVELOPMENT

226. Our Industrial Debt to Immigrants¹⁹

BY PETER ROBERTS.

The new immigration in one respect differs very markedly from the old; the percentage of farmers and farm laborers in this new stream is sixfold what it was in the old. In the last decade, the countries of southeastern Europe have sent us two and a half million men, who, in the old country, were tillers of the soil; but it is safe to say that the number following that occupation in the new world is insignificant. They are employed in industrial plants, in which their labor brings quick returns, and if dissatisfied with wages and conditions they can, in a day, pull up stakes and go elsewhere. The new immigration consequently contains more unskilled workers than the old.

America, two generations ago, was an agricultural nation; to-day it stands in the van of the industrial nations of the earth. This marvelous development, the astonishment of the civilized world, could never have taken place, if Europe and Asia had not supplied the labor force. From 1880 to 1905 the total capital in manufacturing plants increased nearly fivefold, the value of the products increased more than two and a half times, and the labor force about doubled. America could never have finished its transcontinental railroads, developed its coal and ore deposits, operated its furnaces and factories, had it not drawn upon Europe for its labor force; for it was impossible to secure "white men" to do this work.

American industry had a place for the stolid, strong, submissive and patient Slav and Finn; it needed the mercurial Italian and Roumanian; there was much coarse, rough, and heavy work to do in mining and construction camps; in tunnel and railroad building; around smelters and furnaces, etc., and nowhere in the world could employers get laborers so well adapted to their need, as in the countries of southeastern Europe.

Louis N. Hammerling, president of the American Association of Foreign Newspapers, appearing before the Federal Commission on Immigration, said: (1) Sixty-five per cent of the farmers owning farms and working as farm laborers are people who came

¹⁹Adapted from *The New Immigration*, pp. 49-62. Copyright by the Macmillan Co., 1912.

from Europe during the last thirty years. (2) Of the 890,000 miners, mining the coal to operate the great industries, 630,000 are our people. (3) Of the 580,000 steel and iron workers employed in the different plants throughout the United States, 69 per cent, according to the latest statistics of the steel and iron industries, are our people. (4) Ninety per cent of the labor employed for the last thirty years in building the railways has been furnished by our immigrant people, who are now keeping the same in repair.

The census of 1900 showed that 75 per cent of the tailors of the country were foreign born. The investigation of the Immigration Commission showed 72.2 per cent of the workers in the clothing trades foreign-born, and another 22.4 per cent was made up of the children of foreign-born parents; thus 94.6 per cent of the men and women who manufacture ready-made garments are of foreign parentage.

Wherever unskilled work is needed, the foreigner is the one who does it. He is the toiler, the drudge, the "choreman." In the slaughtering and meat-packing industry, the foreign-born comprise about 60 per cent of the labor force, but if you want to locate the sons of the new immigration in a plant of this character, you must descend to the pits where the hides are cured, generally located in dark and damp basements. Go to the fertilizing plant where the refuse of the slaughter house is assembled, and amid the malodorous smells which combine into one rank stench tabooed by all English-speaking men, you find the foreigner. Go to the soap department, where the fats are reduced and the alkalis are mixed—a place you smell from afar and wish to escape from as soon as possible, and there the foreigner is found. These disagreeable occupations "white people" have forsaken, and the sons of the new immigration do the work uncomplainingly for \$1.50 a day.

Wherever digging, excavating, constructing, machine molding, and mining go on, there we find the foreign-born. The patient, willing, and constant labor of the Italians made possible the subways of the great metropolis of the nation; the Bronx Sewer was dug by Italians, Austrians, and Russians. These are the workers who enlarge the Barge Canal and build the Aqueduct to carry an adequate supply of water to the millions of New York City. In lumber camps, in mine patches, in railroad construction work, the foreigner is found. He displaces colored labor in construction camps in the South; and, in the West, he does the unskilled labor unless a legal barrier has been erected to keep him out. The labor force in the woods of Michigan and Minnesota, of Maine and Vermont, is preponderatingly made up of foreigners.

The aliens are the backbone of the mining industry. Calumet, in the northern peninsula of Michigan, is a foreign city of 45,000 souls. There are sixteen different nationalities represented on the public school teaching force, and the pupils in the high school represent twenty different races. It is difficult to find an American in the place. If you want to find the native-born, you must go to Houghton, the capital of the county, where the doctors and lawyers, engineers and professors, retired capitalists and the leisure class live, and it is the same in the mining camps all through this upper peninsula of Michigan. The men who dig the ore, load it and clean it, who burn the powder and remove the rock, who crawl through dog holes and climb numberless ladders, are foreigners. The only crowd met with in the territory not of foreign parentage are the young college graduates, incipient civil engineers, who put into practice the theories they were taught at college. The same is true, generally speaking, of the coal-mining industry.

The United States owes much to the man of the new immigration. No true American will withhold the meed of praise due this man. The consensus of opinion of superintendents and foremen who have used these men is that they have played their part with a devotion, amiability, and steadiness not excelled by men of the old immigration.

227. The Manna of Cheap Labor²⁰

BY EDWARD ALSWORTH ROSS

It is not as cargo that the immigrant yields his biggest dividends. But for him we could not have laid low the many forests, dug up so much mineral, set going so many factories, or built up such an export trade as we have. In most of our basic industries the new immigrants constitute at least half the labor force. Although millions have come in there is no sign of supersaturation, no progressive growth of lack of employment. Somehow new mines have been opened and new mills started fast enough to swallow them up. Virtually all of them are at work and, what is more, at work in an efficient system, under intelligent direction. Janko produces more than he did at home, consumes more, and, above all, makes more profit for his employer than the American he displaces. Thanks to him we have bigger outputs, tonnages, trade balances, fortunes, tips, and alimonies; also bigger slums, red-light districts, breweries, hospitals, and death rates.

To the employer of unskilled labor this flow of aliens, many of them used to dirt floors, a vegetable diet, and child labor, and ignor-

²⁰Adapted from "The Old World in the New," *Century Magazine*, LXXXVII, 29. Copyright, 1913.

ant of underclothing, newspapers, and trade unions, is like a rain of manna. For, as regards foreign competition, his own position is a Gibraltar. Our tariff has been designed to protect him. Thus as long as he stays in his home market, the American mill owner is shielded from foreign competition, while the common labor he requires is cheapened for him by the endless inflow of the neediest, meekest laborers to be found within the white race. If in time they become ambitious and demanding, there are plenty of "greenies" he can use to teach them a lesson. The "Hunkies" pay their "bit" to the foreman for the job, are driven through the twelve-hour day, and in time are scrapped with as little concern as one throws away a thread-worn bolt. A plate mill which had experienced no technical improvement in ten years doubled its production per man by driving the workers. No wonder then that in the forty years the American capitalist has had Aladdin's lamp to rub, his profits from mill and steel works, from packing-house and glass factory, have created a sensational "prosperity" of which a constantly diminishing part leaks down to the wage-earners. Nevertheless, the system which allows the manufacturer to buy at a semi-European wage much of the labor that he converts into goods to sell at an American price has been maintained as "the protection of American labor!"

E. IMMIGRATION AND LABOR CONDITIONS

228. The Elevation of the Native Laborer²¹

BY WILLIAM S. ROSSITER

It must not be overlooked that society in the United States has been so constructed as to depend upon the continued arrival of large numbers of foreigners. In consequence, labor conditions prevailing in this nation differ radically from those which prevail in most of the countries of Europe, where all economic requirements are met by natives. In England, in France, or in Germany, for example, the man who sweeps the streets, the laborer upon public works or in mines, and the woman who cooks or performs other domestic duties, are as truly native as the ruler of the nation or the statesmen who guide its destinies. In the United States, the man who sweeps the streets, who labors upon public works, in mines or on railroads, and the woman engaged in domestic service, if white, are almost all of foreign birth. The native cook has learned to regard such callings as menial and hence as lowering to self-respect. Having accepted the education and opportunity which the Republic

²¹Adapted from "A Common-Sense View of the Immigration Problem," *North American Review*, CLXXXVIII, 368-71. Copyright, 1908.

offers them, native Americans appear to consider that they are untrue to themselves if they do not avoid humble occupations and seek those regarded as an advance in the social scale. There is, therefore, a constant movement away from the lower callings toward the higher; and occupants for the places thus vacated are recruited from foreigners. They in their turn become imbued with the American idea, acquire confidence and develop ambition, and their children abandon to newer arrivals the callings which supported their parents. Evidence of this continued movement upward is seen in the unwillingness, not only of the native stock but of the children of the foreign element, to continue in the servant or so-called menial classes, and in the determination on the part of young women to become shopgirls, telephone-operators, typewriters and shop and factory operatives, oftentimes at the penalty of severe privation, rather than to go out to service.

This tendency creates the problem of a constant shortage of workers in the humbler callings. These callings in themselves are as necessary in a republic as in an empire. Therefore workers in such occupations must in the future, as in the past, continue to be recruited from abroad, or else a large number of native Americans, and children of foreign parents, must be contented to labor uncomplainingly in the lower walks of life. It is possible that the former condition may continue indefinitely, but it unquestionably tends toward instability, for a nation which permanently meets by importation its demand for workers is, in a sense, artificially constructed.

When the young United States started upon a career of independence, the inhabitants concentrated their efforts upon the development of national resources. They prayed for wealth, and Providence gave them the immigrant as the means of securing it. After the lapse of a century, our success surpasses the wildest dreams of our ancestors; the United States has grown marvelously in numbers, and has obtained a prosperity unprecedented in the history of the world.

It is unlikely that our portals, thus far ever open to the aliens of all Europe, will be closed to them until it has been conclusively shown that the existence of the nation is imperiled by their coming, or until large numbers of worthy and industrious American citizens are obviously deprived of their means of livelihood by the arriving throngs of foreigners. At the present time there is nothing which points to the realization of these conditions; and, until there is, discussion concerning the restriction is in reality idle. Therefore let us be practical, nursing no delusions, and face conditions as they are.

We have always needed the immigrant to aid us in amassing wealth, and we shall need him in the future, for the United States has now become the great labor mart of the world.

229. The Industrial Menace of the Immigrant²²

BY EDWARD ALSWORTH ROSS

The facts assembled by the Immigration Commission shatter the rosy theory that foreign labor is drawn into an industry only when native labor is not to be had. The Slavs and Magyars were introduced into Pennsylvania forty-odd years ago by mine operators looking for more tractable miners. Agents were sent abroad to gather up labor, and frequently foreigners were brought in when a strike was on. The first instance seems to have occurred at Drifton in 1870 and resulted in the importation of two shiploads of Hungarians. In 1904, during a strike in the coal-fields, near Birmingham, Alabama, many southern Europeans were brought in. In 1908 "the large companies imported a number of immigrants," so that the strike was broken and unionism destroyed in that region. During the 1907 strike in the iron mines of northern Minnesota, "one of the larger companies imported large numbers of Montenegrins and other Southeastern races as strike-breakers."

The hegira of the English-speaking soft-coal miners shows what must happen when low-standard men undercut high-standard men. The miners of Pennsylvania and West Virginia, finding their unions wrecked and their lot growing worse under the floods of men from southern and eastern Europe, migrated in great numbers to the Middle West and the Southwest. But of late the coal fields of the Middle West have been invaded by multitudes of Italians, Croatians, and Lithuanians, so that even here American and Americanized miners have their backs to the wall. As for the displaced trade-unionists who sought asylum in the mines of Oklahoma and Kansas, the pouring in of raw immigrants has weakened their bargaining power, and many have gone on to make a last stand in the mines of New Mexico and Colorado.

Each exodus left behind an inert element which accepted the harder conditions that came in with the immigrants, and a strong element that rose to better conditions in the mines and in other occupations. As for the displaced, the Iliad of their woes has never been sung—the loss of homes, the shattering of hopes, the untimely setting to work of children, the struggle for a new foothold, and the

²²Adapted from "The Old World in the New," *Century Magazine*, LXXXVII, pp. 29-33. Copyright, 1913.

turning of thousands of self-respecting men into day laborers, odd-job men, down-and-outers, and "hobos."

During the last fifteen years the flood of gold has brought in a spring-tide of prices. Since 1896 the retail cost to Americans of their fifteen principal articles of food has risen 70 per cent. Wages should have risen in like degree if the workman is to maintain his old standard, to say nothing of keeping his place in a social procession which is continually mounting to higher economic levels. But the workingman has been falling behind in the procession. In the soft-coal fields of Pennsylvania, where the Slav dominates, the coal-worker receives 42 cents a day less than the coal-worker in the mines of the Middle West and Southwest, where he does not dominate. In meat-packing, iron and steel, cotton manufacture, and other foreignized industries the inertia of wages has been very marked. The presence of the immigrant has prevented a wage advance which otherwise must have occurred.

What a college man saw in a copper mine in the Southwest gives in a nutshell the logic of low wages. The American miners getting \$2.75 a day are abruptly displaced without a strike by a train load of five hundred raw Italians brought in by the company and put to work at from \$1.50 to \$2.00 a day. For the Americans there is nothing to do but to "go down the road." At first the Italians live on bread and beer, never wash, wear the same filthy clothes night and day, and are despised. After two or three years they want to live better, wear decent clothes, and be respected. They ask for more wages, the bosses bring in another train load from the steerage, and the partly Americanized Italians follow the American miners "down the road."

"The best we get in the mill now is greenhorns," said the superintendent of a tube mill. "When they first come, they put their heart into it and give a full day's work. But after a while they begin to shirk and do as little as they dare." It is during this early innocence that the immigrant accepts conditions that he ought to spurn. The same mill had to break up the practice of selling jobs by foremen. On the Great Northern Railroad the bosses mulcted each Greek laborer a dollar a month for interpreter. The "bird of passage" who comes here to get ahead rather than to live, not only accepts his seven-day week and the twelve-hour day, but often demands them. Big earnings blind him to the cost of overwork. It is the American or the half-Americanized foreigner who rebels against the eighty-four-hour schedule.

When capital plays lord of the manor, the Old World furnishes the serfs. In some coal districts of West Virginia the land, streets,

paths, roads, and miners' cabins, the store, the school, and the church are all owned by the coal company. The company pays the teacher, and no priest or clergyman objectionable to it may remain on its domain. One may not step off the railroad's right of way, pass through the streets, visit mine or cabin, without permission. There is no place where miners meeting to discuss their grievances may not be dispersed as trespassers. Any miner who talks against his boss or complains is promptly dismissed and ejected from the 35,000 acres of company land. Hired sluggers, known as the "wrecking-gang," beat up or even murder the organizer who tries to reach the miners. It is needless to say that the miners are all negroes or foreigners.

After an industry has been foreignized, the notion becomes fixed in the minds of the bosses that without the immigrants the industry would come to a standstill. "If it wasn't for the Slavs," say the superintendents of Mesaba mines, "we couldn't get out this ore at all, and Pittsburgh would be smokeless. You can't get on American to work here unless he runs a locomotive or a steam shovel. We've tried it; brought 'em in carloads at a time, and they left."

"Wouldn't they stay for \$3.00 a day?" I suggested.

"No, it's not a matter of pay. Somehow Americans nowadays aren't any good for hard or dirty work."

Hard work! And I think of Americans I have seen in their last asylum of the native-born, the far West, slaving with ax and hook, hewing logs for a cabin, ripping out boulders for a road, digging irrigation ditches, drilling the granite, or timbering the drift—Americans shying at open-pit, steam-shovel mining!

The secret is that with the insweep of the unintelligible bunk-house foreigner there grows up a driving and cursing of labor that no self-respecting American will endure. Nor can he bear to be despised as the foreigner is. It is not the work or the pay that he minds, but the stigma. That is why, when a labor force has come to be mostly Slav, it will be all Slav. But if the supply of raw Slavs were cut off, the standards and status of the laborers would rise, and the Americans would come into the industry.

Does the man the immigrant displaces rise or sink? The theory that the immigrant pushes him up is not without some color of truth. In Cleveland the American and German displaced iron-mill workers seem to have been absorbed in other growing industries. They are engineers and firemen, bricklayers, carpenters, structural iron workers, steamfitters, plumbers, and printers. Leaving pick and wheelbarrow to Italian and Slav, the Irish are now meter-readers, wire-stringers, conductors, motormen, porters, caretakers, night watch-

men, and elevator men. I find no sign that either the displaced workmen or his sons have suffered from the advent of Pole and Magyar. On the other hand, in Pittsburgh and vicinity, the new immigration has been like a flood sweeping away the jobs, homes, and standards of great numbers, and obliging them to save themselves by accepting poorer employment or fleeing to the West. The cause of the difference is that Pittsburgh held to the basic industries, while in Cleveland numerous high-grade manufacturers started up which absorbed the displaced workmen into the upper part of the laboring force.

Unless there is some collateral growth of skill-demanding industries, the new immigrants bring disaster to many of the workmen they undercut. The expansion of the industry will create some new jobs, but not enough to reabsorb the Americans displaced. Thus in the iron mines of Minnesota, out of the seventy-five men kept busy by one steam shovel, only thirteen get \$2.50 a day or more, and \$2.50 is the least that will maintain a family on the American standard. It is plain that the advent of sixty-two cheap emigrants might displace sixty-two Americans, while it would create only thirteen decent-wage jobs for them. Scarcely any industry can grow fast enough to reabsorb into skilled or semi-skilled positions the displaced workmen.

Employers observe a tendency for employment to become more fluctuating and seasonal because of access to an elastic supply of aliens, without family or local attachments, ready to go anywhere or to do anything. In certain centers immigrant laborers form, as it were, visible living pools from which the employer can dip as he needs. Why should he smooth out his work evenly throughout the year in order to keep a labor force composed of family men when he can always take "ginnies" without trouble and drop them without compunction? Railroad shops are coming to hire and to "fire" men as they need them instead of relying upon the experienced regular employees. In a concern that employs 30,000 men the rate of change is 100 per cent a year and is increasing. Labor leaders notice that employment is becoming more fluctuating, that there are fewer steady jobs, and the proportion of men who are justified in founding a home diminishes.

230. Immigration and Unionism²³

BY W. JETT LAUCK

A significant result of the extensive employment of southern and eastern Europeans in mining and manufacturing is seen in the

²³Adapted from "The Real Significance of Recent Immigration," *North American Review*, CXCV, 2008-9. Copyright, 1912.

general weakening and, in some instances, in the entire demoralization of the labor organizations which were in existence before the arrival of the races of recent immigration. This condition of affairs has been due to the inability of the labor-unions to absorb within a short time the constantly increasing number of new arrivals. The southern and eastern Europeans, as already pointed out, because of their tractability, their lack of industrial experience and training, and their necessitous condition on applying for work, have been willing to accept, without protest, existing conditions of employment. Their desire to earn as large an amount as possible within a limited time has also rendered the recent immigrant averse to entering into strikes which involved a loss of time and a decrease in earnings. The same kind of thriftiness has led the immigrant wage-earner to refuse to maintain his membership in the labor-unions for an extended period and has consequently prevented the complete unionization of certain occupations in some cases, and, in others, the accumulation of a defense fund by the labor organizations. The high degree of illiteracy among recent immigrants and the inability of the greater number of them to speak English have also caused their organization into unions by the native Americans and older immigrants to be a matter of large expense. The difficulty of the situation, from the standpoint of the labor organizations, is further increased by the conscious policy of the employers of mixing races in certain departments or divisions of industries and thus decreasing the opportunities for any concerted action because of a diversity of language in the operating forces. In mining operations, by way of illustration, in many sections, no one race is permitted to secure a controlling number in the operating forces of a single mine or mining occupation because of the fear that a common language would enable them to be readily organized for the purpose of seeking redress for real or fancied grievances.

F. RESTRICTION OF IMMIGRATION

231. A Protest against Immigration²⁴

Resolved, That the unprecedented movement of the very poor to America from Europe in the last three years has resulted in wholly changing the previous social, political, and economic aspects of the immigration question. The enormous accessions to the ranks of our competing wage-workers, being to a great extent unemployed,

²⁴ These resolutions were adopted by the Executive Board of the United Garment Workers in America after an unsuccessful strike in New York in 1905. The members of this trade are very largely Russian Jews.

or only partly employed at uncertain wages, are lowering the standard of living among the masses of the working people of this country, without giving promise to uplift the great body of immigrants themselves. The overstocking of the labor market has become a menace to many trade-unions, especially those of the less skilled workers. Little or no benefit can possibly accrue to an increasing proportion of the great numbers yet coming; they are unfitted to battle intelligently for their rights in this republic, to whose present burdens they but add others still greater. The fate of the majority of the foreign wage-workers now here has served to demonstrate on the largest possible scale that immigration is no solution of the world-wide problem of poverty.

Resolved, That we warn the poor of the earth against coming to America with false hopes; it is our duty to inform them that the economic situation in this country is changing with the same rapidity as the methods of industry and commerce.

232. An Immigration Program²⁵

As a result of the investigation the Commission is of the opinion that in legislation emphasis should be laid on the following principles:

1. While the American people welcome the oppressed of other lands, care should be taken that immigration be such in quantity and quality as not to make too difficult the process of assimilation.
2. Further general legislation concerning the admission of immigrants should be based primarily upon economic or business considerations touching the prosperity and economic well-being of our people.
3. The measure of the healthy development of a country is not the extent of its investment of capital, its output of products, or its imports and exports, unless there is a corresponding economic opportunity afforded to the citizen dependent upon employment for his material, mental, and moral development.
4. A slow expansion of industry which permits the adaptation and assimilation of the incoming labor supply is preferable to a very rapid industrial expansion which results in the immigration of laborers of low standards and efficiency, who imperil the American standard of wages and conditions of employment.

The investigations of the Commission show an oversupply of unskilled labor in the basic industries of the country as a whole,

²⁵Adapted from *A Brief Statement of the Conclusions and Recommendations of the Immigration Commission* (1910), pp. 37-40.

and therefore demand legislation which will at the present time restrict the further admission of such unskilled labor. It is desirable in making these restrictions that:

- a) A sufficient number be debarred to produce a marked effect upon the present supply of unskilled labor.
- b) That aliens excluded should be those who come to this country with no intention to become American citizens, but merely to save and return to their own country.
- c) The aliens excluded should be those who would least readily be assimilated.

The following methods of restricting immigration have been suggested:

- a) The exclusion of those unable to read or write in some language.
- b) The limitation of the number of each race arriving each year to a certain percentage of the average of that race arriving during a given period of years.
- c) The exclusion of unskilled laborers unaccompanied by wives or families.
- d) The limitation of the number of immigrants arriving annually at any port.
- e) The material increase in the amount of money required to be in the possession of the immigrant at the port of arrival.
- f) The material increase in the head tax.
- g) The levy of the head tax so as to make a marked discrimination in favor of men with families.

A majority of the Commission favor the reading and writing test as the most feasible single method of restricting undesirable immigration.

233. The Pro and Con of the Literacy Test

a) *The Necessity for the Educational Test*²⁶

BY P. F. HALL

If we are to apply some further method of selection to immigrants what shall it be? It must be a definite test. For one trouble with the present law is that it is so vague and elastic that it can be interpreted to suit the temper of any of the higher officials who may happen to be charged with its execution. While there are many exceptions, those persons who can not read in their own language are, in general, those who are also ignorant of a trade, who

²⁶Adapted from an article in the *Annals of the American Academy of Political and Social Science*, XXIV, 183. Copyright, 1904.

bring little money with them, who settle in the city slums, who have a low standard of living and little ambition to seek a better, and who do not assimilate rapidly or appreciate our institutions. It is not claimed that an illiteracy test is a test of moral character, but it would undoubtedly exclude a good many persons who now fill our prisons and almshouses, and would lessen the burden on our schools and machinery of justice. In a country having universal suffrage, it is also an indispensable requirement for citizenship, and citizenship in its broadest sense means much more than the right of the ballot. The illiteracy test has passed the Senate three times and the House four times in the last eight years. The test has already been adopted by the Commonwealth of Australia and by British Columbia, and would certainly have been adopted here long since but for the opposition of the transportation companies.

*b) Pauperism and Illiteracy*²⁷

BY KATE H. CLAGHORN

The general conclusions to be drawn with regard to the newer element in immigration seem to be, first, that among them the unskilled worker gets along better than the skilled, and the illiterate than the literate. This is not to say that skill and education in themselves are a handicap in the industrial contest, or that all racial groups with a large proportion of illiterate, unskilled labor get along better than those having a high degree of literacy and a larger proportion of skill.

Industrial success in this country depends upon adjustment to conditions here. Some groups seem to find suitable openings for skill and education. But on the whole there is more chance for the newcomer into any social aggregation if he is willing to begin at the bottom, and in this country, in particular, there is less demand for skilled labor from outside, owing to the fact that the present inhabitants are willing to follow these lines of work themselves, but are unwilling to occupy themselves in unskilled labor. On the other hand the skill, and especially the education, of the newer European immigrant has been directed along lines that do not suit American conditions. In the evolutionary phrasing, undifferentiated social elements can more easily adapt themselves, by specializing, to fit a new environment, than can the elements which have been already differentiated to fit a former environment.

²⁷Adapted from an article in the *Annals of the American Academy of Political and Social Science*, XXIV, 197-98. Copyright, 1904.

Any restriction of immigration, then, that is based on an educational qualification, would be meaningless with respect to the growth of pauperism. Such a qualification would, among the newer immigrants at least, let in the class which though small is the most difficult to provide for, and would keep out the class that can best provide for itself.

c) *From the Men at the Gate*²⁸

BY LOUIS S. AMONDSON

We've dug your million ditches,
We've built your endless roads,
We've fetched your wood and water,
And bent beneath the loads.
We've done the lowly labor
Despised by your own breed;
And now you won't admit us
Because we cannot read.

We've given honest labor,
And liked our humble lot;
Our children learn the letters
Their fathers haven't got.
We've fled from persecution
And served you in your need,
But now you would debar us
Because we can not read.

Most crooks are educated,
And to the manner born;
Their white hands show no callous,
They look on us with scorn.
More learning is not virtue,
The word is not the deed.
Disdain, then, not your toilers
Because they can not read.

Good friends, if we are brothers,
Why do you raise this test?
Will talk, then, till your acres
And feed your people best?
Your children trained as idlers,
Some workers you must need
Don't bar our only refuge
Because we can not read.

Your farms are half deserted,
Up goes the price of bread;
Your boasted education
Turns men to clerks instead.
We bring our picks and shovels
To meet your greatest need;
Don't shut the gate upon us
Because we can not read.

d) *Our Immigration Policy*²⁹

BY WOODROW WILSON

In two particulars of vital consequence this bill embodies a radical departure from the traditional and long-established policy of this country, a policy in which our people have conceived the very character of their government to be expressed, the very mission and spirit of the nation in respect of its relations to the peoples of the world outside their borders. It seeks to all but close entirely

²⁸From *The Square Deal*, XII (1913), 165-66.

²⁹Adapted from the Message of the President of the United States Vetoing H. R. 6060, 63d Cong., 3d sess., Document 1527, 3-4 (1915). This bill provided for the so-called "literary test" for admission of aliens into this country. The "Burnett-Smith Immigration Act" was passed by Congress, over the veto of the President, on February 5, 1917. It became operative on May 5, 1917.

the gates of asylum which have always been open to those who could find nowhere else the right and opportunity of constitutional agitation for what they conceived to be the natural and inalienable rights of men; and to exclude those to whom the opportunities of elementary education have been denied, without regard to their character, their purposes, or their natural capacity.

Restrictions like these adopted earlier in our history as a nation, would very materially have altered the course and cooled the human ardor of our politics. The right of political asylum has brought to this country many a man of noble character and elevated purpose who was marked as an outlaw in his own less fortunate land, and who has yet become an ornament to our citizenship and to our public councils. The children and the compatriots of these illustrious Americans must stand amazed to see the representatives of their nation now resolved, in the fulness of our national strength and at the maturity of our great institutions, to risk turning men back from our shores without test of quality or purpose. It is difficult for me to believe that the full effect of this feature of the bill was realized when it was framed and adopted, and it is impossible for me to assent to it in the form in which it is here cast.

The literacy test and the tests and restrictions which accompany it constitutes an even more radical change in the policy of the nation. Hitherto we have generously kept our doors open to all who were not unfitted by disease or incapacity for self-support or such personal records or antecedents as were likely to make them a menace to our peace and order or to the wholesome and essential relationships of life. In this bill it is proposed to turn away from tests of character and of quality and impose tests which exclude and restrict; for the new tests here embodied are not tests of quality or of character or personal fitness, but tests of opportunity. Those who come seeking opportunity are not to be admitted unless they have already had one of the chief opportunities they seek, the opportunity of education.

G. THE FUTURE OF THE IMMIGRANT

234. The Immigrant an Industrial Peasant⁸⁰

BY H. G. WELLS

Will the reader please remember that I've been just a few weeks in the state's altogether, and value my impressions at that! And will he, nevertheless, read of doubts that won't diminish. I doubt

⁸⁰Adapted from *The Future in America*, 142-47. Copyright by Harper & Bros, 1906.

very much if America is going to assimilate all that she is taking in now; much more do I doubt that she will assimilate the still greater inflow of the coming years. I believe she is going to find infinite difficulties in that task. By "assimilate" I mean make intelligently co-operative citizens of these people. She will, I have no doubt whatever, impose upon them a bare use of the English language, and give them votes and certain patriotic persuasions, but I believe that if things go on as they are going the great mass of them will remain a very low class—will remain largely illiterate industrialized peasants. They are decent-minded peasant people, orderly, industrious people, rather dirty in their habits, and with a low standard of life. Wherever they accumulate in numbers they present to my eye a social phase far below the level of either England, France, north Italy, or Switzerland. And, frankly, I do not find the American nation has either in its schools—which are as backward in some States as they are forward in others—in its press, in its religious bodies or its general tone, any organized means or effectual influences for raising these huge masses of humanity to the requirements of an ideal modern civilization. They are, to my mind, "biting off more than they can chew" in this matter.

Bear in mind always that this is just one questioning individual's impression. It seems to me that the immigrant arrives an artless, rather uncivilized, pious, goodhearted peasant, with a disposition towards submissive industry and rude effectual moral habits. America, it is alleged, makes a man of him. It seems to me that all too often she makes an infuriated toiler of him, tempts him with dollars and speeds him up with competition, hardens him, coarsens his manners, and, worst crime of all, lures and forces him to sell his children into toil. The home of the immigrant in America looks to me worse than the home he came from in Italy. It is just as dirty, it is far less simple and beautiful, the food is no more wholesome, the moral atmosphere far less wholesome; and as a consequence, the child of the immigrant is a worse man than his father.

I am fully aware of the generosity, the nobility of sentiment, which underlies the American objection to any hindrance to immigration. But either that general sentiment should be carried out to a logical completeness and gigantic and costly machinery organized to educate and civilize these people as they come in, or it should be chastened to resist the inflow to numbers assimilable under existing conditions. At present, if we disregard sentiment, if we deny the alleged need of gross flattery whenever one writes of America for Americans, and state the bare facts of the case, they

amount to this: that America, in the urgent process of individualistic industrial development, in its feverish haste to get through with its material possibilities, is importing a large portion of the peasantry of central and eastern Europe, and converting it into a practically illiterate industrial proletariat. In doing this it is doing something that, however different in spirit, differs from the slave trade of its early history only in the narrower gap between employer and laborer. In the "colored" population America has already ten million descendants of unassimilated and perhaps unassimilable labor immigrants. These people are not only half civilized and ignorant, but they have infected the white population about them with a kindred ignorance. For there can be no doubt that if an Englishman or Scotchman of the year 1500 were to return to earth and seek his most retrograde and decivilized descendants, he would find them at last among the white and colored population south of Washington. I have a foreboding that in this mixed flood of workers that pours into America by the million today, in this torrent of ignorance, against which that heroic being, the schoolmarm, battles at present all unaided by men, there is to be found the possibility of another dreadful separation of class and kind, a separation perhaps not so profound but far more universal. One sees the possibility of a rich industrial and mercantile aristocracy of western European origin, dominating a darker-haired, darker-eyed, uneducated proletariat from central and eastern Europe. The immigrants are being given votes, I know, but that does not free them, it only enslaves the country. The negroes were given votes.

These are all mitigations of the outlook, but still the dark shadow of disastrous possibility remains. The immigrant comes in to weaken and confuse the counsels of labor, to serve the purposes of corruption, to complicate any economic and social development, above all to retard enormously the development of that national consciousness and will on which the hope of the future depends.

235. The Problem of Americanization⁸¹

BY HENRY W. FARNAM

We must Americanize our population. The Civil War abolished slavery but left us as its legacy a block of 10,000,000 black freedmen, mostly illiterate. These people had to be educated and made worthy of citizenship. At the same time the demand for labor in the North led to great and increasing immigration. As a result, our conti-

⁸¹From "The Balance Wheels of America," *Yale Review*, VIII, 261-62. Copyright, 1919.

mental population grew in forty years from about 38,000,000 with a density of 13 per square mile, to over 93,000,000 with a density of 30.9 per square mile in 1910, while it exceeds 100,000,000 at the present time. At the outbreak of the world-war our numbers were nearly half as large again as those of the German Empire, and were equal to the combined numbers of the United Kingdom, France, Belgium, and the Netherlands.

But if we analyze the population we find that it has been recruited to a large extent by immigration. From 1870 to 1910, over 20,000,000 immigrants entered the country. Thirty-five per cent of our population in 1910 were either of foreign birth or foreign parentage. A large percentage of foreign born is nothing new in our history, but the source of supply has undergone a marked change during recent decades. In the decade ending in 1880, 73.7 per cent of the immigrants came from Northwestern Europe, and 7.1 from Southern and Eastern Europe. In the last decade these figures were almost reversed, and only 21.8 came from Northeastern, while 71.9 came from Southeastern Europe.

Whether the people of these regions as individuals are better or worse than the immigrants of forty years ago need not be discussed. The outstanding fact is that, whatever may be the physical, moral, and intellectual qualities of the newcomers, an increasing percentage of them are unfamiliar with the English language and with the institutions of self-government which have developed in Western European states. They are on the whole less well educated. Some light is thrown on this phase of the matter by the statistics of illiteracy. In 1895, 42,302 immigrants over fourteen years of age out of a total of 279,948, or about 15 per cent, were unable to read or write. This number had increased by 1914 to 260,152 illiterates out of a total of 1,218,480, or about 21 per cent. The illiterates who entered our country in 1914 were nearly as numerous as the total number of immigrants nineteen years earlier. In the course of the ten years preceding the European war we took in 2,339,400 immigrants over fourteen years of age who were unable to read or write, after debarring from entrance for one reason or another 173,900. In the very nature of things, therefore, these late arrivals are an element more difficult to assimilate than those who furnished the bulk of the immigration before the Civil War.

We have in the Americanization of these newcomers a vast problem which we have thus far imperfectly solved. We have an equally important problem in the education of the native-born. Our expenditure on the common schools has increased from about \$9 per pupil in 1871 to \$30 in 1915; but the large number of illiterates still found

in parts of our country shows either that we have not spent enough or that we have not spent our money wisely. This is no place to say in detail what should be done. Indeed, it would be presumptuous to assume that we can pronounce upon ways and means now. Every step must be taken carefully and experimentally. The leading things to aim at are to give the children a more adequate conception of the American ideals of American institutions, and to inculcate habits of uprightness, industry, thrift, and thoroughness as elements of national power.

236. Industry and Americanization⁸²

BY ESTHER EVERETT LAPE

We can never forget that the initiative in the status of the immigrant in this country is economic. We admitted men and women not only with no question as to their citizenship but with no reference to it. We neither knew nor cared whether they ever intended to become citizens or to adopt our language. We needed them in our mines and factories; big employers wanted them and sent for them; and we let them in, taking some pride in the haste with which we examined them mentally, proved their fitness or unfitness, and hurried them through the line at Ellis Island to the waiting employer.

The obvious result is that Americanization is and must for years continue to be a main charge upon American business. Some form of industry reaches every immigrant that comes here, and it is often the only American thing that does reach him. Whatever else the immigrant has or has not in the country, he has an American job. The employer has a continuous day-in-and-day-out chance at him which no other American institution has. Besides this, the Americanization opportunities of the night school, the library, the church, the settlement are limited indeed.

Collectively speaking, however—for there is, of course, no direct moral charge upon the individual in this respect—American employers have the responsibility as well as the opportunity. A few years ago this peculiar situation was revealed by an attempt to get adult immigrants into night schools for the study of English and preparation of citizenship. Year after year the great automobile factories and construction plants had been importing the labor they needed, importing it much faster than the conservative city of Detroit could assimilate it. Every institution of the city was thoroughly provincial, developed along the most conservative lines, for Americans only. As a result the most progressive industrial city of America was 75 per

⁸²Adapted from "Americanization," *Columbia University Quarterly*, XX (1918), 65-70.

cent immigrant with civic institutions used by about 30 per cent of the city's population. No wonder an editor saw in the attempt to get immigrants into night schools and the employers' support of the campaign the dumping of a large and unjustifiable burden upon the self-respecting tax-paying citizen, who was not profiting by immigrant labor. After all they had been brought there frankly as an economic asset. It really made very little difference whether they, as individuals, stayed on the job, or whether their places were taken by others—except that here and there an enlightened industrial captain was beginning to see that men who did not speak English and were not citizens were a potential cause of labor troubles, that "migratory immigrants" were making the labor supply unstable, and that stability of the labor supply is an essential factor in production.

As in any movement where bulk and quantity are the desiderata, a huge percentage of waste was admitted by employers as quite normal. The country had a fixed idea that the immigrant was here to do the rough work, and that the millions of them so engaged constituted an industrial reserve not subject to the same circumstances as the great mass of American laborers. A few years ago an officer of an important coal and iron company in Colorado deprecated a suggestion to treat with the "hunkies" as futile and absurd. What he said in effect was this: We are not dealing with American workmen; we are dealing with muscle and brawn to which American jobs have been given. They were brought here for that. If there is any difficulty, the answer is a new set of laborers.

The attitude, represented by the Detroit editor and the Colorado mine operator, is passing. The war situation has made us conscious of the need for Americanization. As a result of the general interest stimulated during the last few years, particularly by the Immigration Committee of the United States Chamber of Commerce, thousands of employers throughout the country have undertaken to find out the social and citizenship condition of their workmen, their ability to speak English, the industrial intention, what they do with their savings, and, in short, their whole intention in America. Many of these firms realize and frankly state that the Americanization of their workmen has ceased to be an interesting and humanitarian avocation and has become not only good business but necessary business. It is no longer a secret that both our railroads and our strategic industries are largely manned by aliens, many of whom indeed are friendly, many others men of whose loyalty or disposition we know nothing.

Out of all this confusion, out of the possibility of disaster, there is coming to the American employer a very healthy recognition that Americanization is, even industrially speaking, a prime essential.

Industry cannot do the whole task. But for a long time to come it will have to do more than its share. Its share is the instruction of immigrant men and women in American industrial standards, industrial relations, and industrial ideals. The industry that employs immigrants owes America the task of making them thorough-going American workmen; and until employers and American trade-unions, with their native membership, alike accept that bond, immigrant workmen, whether in war or in peace, are an industrial menace to America.

Aside from this industrial responsibility, the American industry employing immigrants must always be, both for the community and the national government, the chief executive agent outside the public schools and perhaps above it. It possesses most of a man's working hours. It determines his place of residence, his manner of life, his savings. It has a dozen opportunities in the mere routine of the day to get an American message through to him. When the industrial Americanization has been made a part of the firm's accounting, when it is reckoned as a part of the cost of production, the routine of American industry will produce Americanized workmen.

237. The Economics of Immigration²²

BY FRANK A. FETTER

The current objections to immigration are mainly based on the alleged evil effects to the political, social, and moral standards of the community. It is often asserted that present immigration is inferior in racial quality to that of the past. Whatever be the truth and error mingled in these views, we are not now discussing them. Our view is wholly impersonal and without race prejudice. If the present immigration were all of the Anglo-Saxon race, were able to speak, read, and write English, and had the same political sentiments and capacities as the earlier population, the validity of our present conclusions would be unaffected.

When our policy of unrestricted immigration is thus opposed to the interests of the mass of the people, its continuation in a democracy where universal manhood suffrage prevails is possible only because of a remarkable complexity of ideas, sentiments, and interests, neutralizing each other and paralyzing action. The American sentiment in favor of the open door to the oppressed of all lands is a part of our national heritage. The wish to share with others the blessings of freedom and of economic plenty is the product of many

²²Adapted from "Population or Prosperity," *American Economic Review*, III (No. 1, Supplement), 13-16. Copyright, 1912.

generations of American experience. The policy had mainly an economic basis; land was here a free good on the margin of a vast frontier. Most citizens benefited by a growing population. But the open door policy is vain to relieve the condition of the masses of other lands. Emigration from overcrowded countries, with the rarest exceptions, leaves no permanent gaps. Natural increase quickly fills the ranks of an impoverished peasantry. Lands whose people are in economic misery must improve their own industrial organization, elevate their standards of living, and limit their numbers. If they go on breeding multitudes which find an unhindered outlet in continuous migration to more fortunate lands, they can at last but drag others down to their own unhappy economic level.

The pride of immigrants and of their children, sometimes to the second and third generations, is another strong force opposing restriction. Immigrants, having become citizens, are proud of the race of their origin, and resent restriction as a reflection upon themselves and their people.

A strong commercial motive operates in the most influential class of employers in favor of the continuance of immigration. From the beginning of our history, proprietors and employers have looked with friendly eyes upon the supplies of comparatively cheap labor coming from abroad. Large numbers of immigrants or of their children have been able soon, in the conditions of the times, to become proprietors and employers. Thus was hastened the peopling of the wilderness. The interest of these classes harmonized to a certain point with the public interest; but likewise it was in some respects in conflict with the abiding welfare of the whole nation. It encouraged much defective immigration from Europe.

The immigration from Europe has furnished an ever-changing group of workers moderating the rate of wages which employers otherwise would have had to pay. The continual influx of cheap labor has aided in imparting values to all industrial opportunities. A large part of these gains have been in the trade, manufactures, and real estate of cities, as these have taken and retained an ever growing share of the immigrants. Successive waves of immigration, composed of different races, have been ready to fill the ranks of the unskilled workers at meager wages. This continuous inflow has in many industries come to be looked upon as an indispensable part of the labor supply. Conditions of trade, methods of manufacturing, prices, profits, and the capital value of the enterprises have become adjusted to the fact. Hence results one of those illusions cherished by the practical world when it identifies its own profits with the public welfare. Without immigration, it is said, the supply of labor

would not be equal to the demand. It would not at the present wages. Supply and demand have reference to a certain price. At a higher wage the amount of labor offered and the amount demanded will come to an equality. This would temporarily curtail profits, and other prices would, after readjustment, be in a different ratio to wages. Such a prospect is most displeasing to the commercial world, quick to see disaster in a disturbance of profits, slow to see popular prosperity in rising wages.

The labor supply coming from countries of denser population and with low standards of living creates, in some occupations, an abnormally low level of wages and prices. Children cannot be born in American homes and raised on the American standard of living cheaply enough to maintain at such low wages a continuous supply of laborers. Many industries and branches of industry in America are thus parasitical. A condition essentially pathological has come to be looked upon as normal. It is the commercial ideal which imposes itself upon the minds of men in other circles.

What tremendous forces are combined in favor of a policy of unrestricted immigration: sentiment and business, generosity, selfishness, laborers, employers. All men are prone to view immigration in its details, not in its entirety. They see this or that individual or class advantage, not the larger national welfare. The interests of capitalists and of the newly arriving immigrants are abundantly considered; the interests of the mass of the people now here are overlooked.

238. The Influence of the Immigrant on America³⁴

BY WALTER E. WEYL

When we seek to discover what is the exact influence of the immigrant upon his new environment, we are met with difficulties almost insurmountable. Social phenomena are difficult to isolate. The immigrant is not merely an immigrant. He is also a wage-earner, a city-dweller, perhaps, also an illiterate. Wage-earning, city-dwelling, and illiteracy are all contributing influences. Your immigrant is a citizen of a new factory, of the great industrial state, within, yet almost overshadowing the political state. Into each of our problems—wages and labor, illiteracy, crime, vice, insanity, pauperism, democracy—the immigrant enters.

There is in all the world no more difficult, no more utterly bewildering problem than this of the intermingling of races. Already

³⁴Adapted from "New Americans," *Harper's Monthly Magazine*, CXXIX, 616-17, 620-22. Copyright, 1914.

twenty million immigrants have come to stay. To interpret this pouring of new, strange millions into the old, to trace its results upon the manners, the morals, the emotional and intellectual reactions of the Americans, is like searching out the yellow waters of the Missouri in the vast floods of the lower Mississippi. Our immigrating races are many, and they meet diverse kinds of native Americans on varying planes and at innumerable contact points. So complex is the resulting pattern, so multifarious are the threads interwoven into so many perplexing combinations, that we struggle in vain to unweave the weaving.

When we compare the America of today with the America of half a century ago, certain differences stand out sharply. America today is far richer. It is also more stratified. Our social gamut has been widened. There are more vivid contrasts, more startling differences, in education and in the general chances of life. We are less rural and more urban, losing the virtues and the vices, the excellences and the stupidities of country life, and gaining those of the city. We are massing in our cities armies of the poor to take the places of country ne'er-do-wells. We are more sophisticated. We are more lax and less narrow. We have lost our early frugal simplicity, and have become extravagant. We have, in short, created a new type of the American, who lives in the city, who reads newspapers and even books, bathes frequently, travels occasionally; a man fluent intellectually and physically restless, ready but not profound, intent upon success, not without idealism, but somewhat disillusioned, pleasure-loving, hard-working, humorous. At the same time there grows a sense of a social maladjustment, a sense of failure in America to live up to expectations, and an intensifying desire to right a not clearly perceived wrong. There develops a vigorous, if somewhat vague and untrained, moral impulse based on social rather than individual ethics, unaesthetic, democratic, headlong.

Although this development might have come about in part at least without immigration, the process has been enormously accelerated by the arrival on our shores of millions of Europeans. These men came to make a living, and they made not only their own but other men's fortunes. They hastened the dissolution of old conditions; they undermined old standards by introducing new; their very traditions facilitated the growth of that traditionless quality of the American mind which hastened our material transformation.

Because of his position at the bottom of a stratified society the immigrant does not exert any large direct influence. His indirect influence, on the other hand, is increased rather than diminished by his position at the bottom of the structure. When he moves, all

superincumbent groups must of necessity shift their positions. This indirect influence is manifold. The immigration of enormous numbers of unskilled "interchangeable" laborers, who can be moved about like pawns, standardizes our industries, facilitates the growth of stupendous business units, and generally promotes plasticity. The immigrant by his very readiness to be used speeds us up; he accelerates the whole *tempo* of our industrial life. He changes completely the "balance of power" in industry, politics, and social life generally. The feverish speed of our labor, which is so largely pathological, is an index of this. The arrival of ever fresh multitudes adds to the difficulties of securing a democratic control of either industry or politics. The presence of the unskilled, unlettered immigrant excites the cupidity of men who wish to make money quickly and do not care how. It makes an essentially kind-hearted people callous. Why save the lives of "wops"? What does it matter if our industry kills a few thousands more or less, when, if we wish, we can get millions a year from inexhaustible Europe? Immigration acts to destroy our brakes. It keeps us, as a nation, transitional.

Of course this transitional quality was due partly to our virgin continent. There was always room in the West. Immigration, however, intensified and protracted the development. Each race had to fight for its place. Natives were displaced by Irish, who were displaced in turn by Germans, Russians, Italians, Portuguese, Greeks, Syrians. Whole trades were destroyed by one nation and conquered by another. The old homes of displaced nations were inhabited by new peoples; the old peoples were shoved up or down, but, in any case, out. Cities, factories, neighborhoods changed with startling rapidity. Connecticut schools, once attended by descendants of the Pilgrims, became overfilled with dark-eyed Italian lads and tow-headed Slavs. Protestant churches were stranded in Catholic or Jewish neighborhoods. America changed rapidly, feverishly. The rush and recklessness of our lives were increased by the mild, law-abiding people who came to us from abroad.

There was a time when all these qualities had their good features. So long as we had elbow room in the West, so long as we were young and growing, with a big continent to make our mistakes in, even recklessness was a virtue. But today America is no longer elastic; the road from bottom to top is not so short and not so unimpeded as it once was. We cannot any longer be sure that the immigrant will find his proper place in eastern mills or on western farms without injury to others—or to himself.

The time has passed when we believed that mere numbers was all. Today, despite the whole network of Americanizing agencies,

we have teeming, polyglot slums, and the clash of race with race in sweatshop and factory, mine and lumber camp. We have a mixture of ideals, a confusion of standards, a conglomeration of clashing views on life. We, the many-nationed nation of America, bring the Puritan tradition, a trifle anæmic and thin, a little the worse for disuse. The immigrant brings a Babel of traditions, an all too plastic mind, a willingness to copy our virtues and our vices, to imitate us for better or for worse. All of which hampers and delays the formation of national consciousness.

From whatever point we view the new America, we cannot help seeing how intimately the changes have been bound up with our immigration, especially that of recent years. The widening of the social gamut becomes more significant when we recall that with unrestricted immigration our poorest citizens are periodically recruited from the poor of the poorest countries of Europe. Our differences in education are sharply accentuated by our enormous development of university and high schools at one end, and by the increasing illiteracy of our immigrants at the other.

America today is in transition. We have moved rapidly from one industrial world to another, and this progress has been aided and stimulated by immigration. The psychological change, however, which should have kept pace with this industrial transformation, has been slower and less complete. It has been retarded by the very rapidity of our immigration. The immigrant is a challenge to our highest idealism, but the task of Americanizing the extra millions of newcomers has hindered progress in the task of democratizing America.

H. THE QUALITY OF POPULATION

239. The Breeding of Men²⁵

BY PLATO

"Then tell me, Glaucon, how is this result to be attained? For I know that you keep in your house both sporting dogs and a great number of game birds. I conjure you, therefore, to inform me whether you have paid any attention to the breeding of these animals."

"In what respect?"

"In the first place, though all are well bred, are there not some which are, or grow to be, superior to the rest?"

"There are."

"Do you then breed from all alike, or are you anxious to breed as far as possible from the best?"

²⁵Adapted from *The Republic*, v. 459-60 (385 B.C.).

"From the best."

"And if you were to pursue a different course, do you think that your breed of birds and dogs would degenerate very much?"

"I do."

"Good heavens! my dear friend," I exclaimed, "what very first-rate men our rulers ought to be, if the analogy holds with respect to the human race."

"Well, it certainly does."

"The best of both sexes ought to be brought together as often as possible, and the worst as seldom as possible, and the issue of the former unions ought to be reared, and that of the latter abandoned, if the flock is to attain first-rate excellence."

"You are perfectly right."

"Then we shall have to ordain certain festivals at which we shall bring together the brides and bridegrooms, and we must have sacrifices performed, and hymns composed by our poets in strains appropriate to the occasion; but the number of marriages we shall place under the control of the magistrates, in order that they may, as far as they can, keep the population at the same point, taking into consideration the effects of war and disease, and all such agents, that our city may, to the best of our power, be prevented from becoming either too great or too small."

240. Derby Day and Social Reform⁸⁶

BY MARTIN CONWAY

SIR: Which is wrong—the breeder of race horses or Mr. Lloyd-George? Would racing men do better with their animals if they adopted all the methods which Parliament has imposed upon us in recent years as the right way to improve the efficiency of the human race? How would it be if they swept up the whole equine progeny of the country, each generation as it came, and applied social reform to it—if they provided it with stables sanitarily inspected, if they caused all its units pass under the hands of certified trainers, if they pensioned off the old hacks, and provided bank holidays for the young, and, finally, if they left the whole question of the breeding of the beasts to chance? If English racing-men adopted our governmental system, is it not certain that English race horses would be beaten everywhere by horses bred by selection? Yet no one suggests any interference with the breeding of the human race. It is only royal marriages that have to be publicly approved. My suggestion that the same kind of interference should be applied to the mar-

⁸⁶A letter published in the *London Times*, May 26, 1909.

riages of peers has not exactly "caught on." In their case the hereditary principle is accepted but not scientifically applied.

Not only does Parliament in its so-called wisdom fail to apply science to the production of hereditary legislators, but in all recent social legislation it has actually penalized the fitter classes in society in the interests of the less fit. The least fit in the country are the old people who have failed to provide any savings against their old age, and that large class of cheats who manage to pretend that they are in that case. An as yet uncounted number of millions sterling is now to be taken year after year from the fitter classes and doled out to these unfittest. No one can tell how many children that would have been born to these fitter parents will now have to go unborn. The old people used to be supported by their relations, who presumably inherited a like unfitness; those relatives, now indirectly endowed, can now produce more children in place of the fitter children whose entry into the world has been blocked. All so-called social legislation tends to act in the same way. The birth rate of the fitter is diminishing year by year and we calmly sit by and watch the consequent degeneration of our race with idle hands. We take the human rubbish that emerges and give it compulsory education, housing acts, inspection of all sorts and at all seasons, at the expense of the fitter class, and imagine that better results will ensue than if we left the whole business alone. Are we right? Or are the horse breeders right? They have demonstrably improved the race of horses, and with great rapidity. The old system of "let alone" also improved, though more slowly, the race of men. It is only the modern system of penalizing the fit for the sake of the unfit that seems to be put in action simultaneously with, if it does not cause, and observed race-degeneration.

241. Eugenics and the Social Utopia³⁷

BY GEORGE P. MUDGE

With regard to man, it is now clear that what medicine, social reform, legislation, and philanthropy have failed to accomplish can be achieved by biology. Tell the student of genetics what type of nation we desire, within the limits of the characters which the nation already possesses, and confer upon him adequate powers, and he will evolve it. It is not too much to say that if he were instructed to evolve a "fit" nation—that is, one of self-restrained and self-supporting individuals—in the course of a few generations there would

³⁷Adapted from a review of Bateson's *Mendel's Principles of Heredity*, in *The Eugenics Review*, I (1909), 137.

be neither workhouses, hospitals, unemployables, congenital criminals, or drunkards.

Students of eugenics will turn with interest to the concluding pages of Professor Bateson's book; there he deals with the sociological application of the science of genetics. We commend every advocate of social panaceas and of legislative interference with natural processes to read this part of the book. In a few well-chosen sentences he gives expression to the judgment of every biologist, alike of the present and the past, who has given to social problems adequate and unbiased thought. For nothing is more evident to the naturalist than that we cannot convert inherent vice into innate virtue, nor change leaden instincts into golden conduct, nor transform a "sow's ear into a silken purse," by any known social process. Our vast and costly schemes of free compulsory education, of county council scholarships and evening classes, which are among these social processes supposed to possess the magic virtue of transforming the world into a fairyland, may be a delusion and a danger. So, too, may be all the other well-intentioned but costly panaceas that harass, and tax, and eventually destroy the fit in order to attempt—for they can never achieve—the salvation of the unfit.

242. Immigration and Eugenics⁸⁸

BY WALTER E. WEYL

We must not forget that these men and women who file through the narrow gates at Ellis Island, hopeful, confused, with bundles of misconceptions as heavy as the great sacks upon their backs—we must not forget that these simple, rough-handed people are the ancestors of our descendants, the fathers and mothers of our children.

So it has been from the beginning. For a century a swelling human stream has poured across the ocean, fleeing from poverty in Europe to a chance in America. One race after another has knocked at our doors, been given admittance, has married us and begot our children. We could not have told by looking at them whether they were to be good or bad progenitors, for racially the cabin is not above the steerage, and dirt, like poverty and ignorance, is but skin deep. A few hours and the stain of travel has left the immigrant's cheek; a few years and he loses the odor of alien soils; a generation or two, and those outlanders are irrevocably our race, our nation, our stock.

⁸⁸Adapted from "New Americans," *Harper's Monthly Magazine*, CXXIX, 615-16. Copyright, 1914.

That stock a little over a century ago was almost pure British. Despite the presence of Germans, Dutch, French, and Negroes, the American was essentially an Englishman once removed, an Englishman stuffed with English traditions, prejudices, and stubbornnesses, reading English books, speaking English dialects, practicing English law and English evasions of law, and hating England with a truly English hatred. Even after immigration poured in upon us, the English stock was strong enough to impress upon the immigrating races its language, laws, and customs. Nevertheless, the incoming millions profoundly altered our racial structure. Today over thirty-two million Americans are either foreign-born or of foreign parentage. America has become the most composite of nations.

We cannot help seeing that such a vast transfusion of blood must powerfully affect the character of the American. What the influence is to be, however, whether for better or for worse, is a question most baffling. Our optimists conceive the future American the child of this infinite intermarrying, as a glorified, synthetic person, replete with the best qualities of all the component races. He is to combine the sturdiness of the Bulgarian peasant, the poetry of the Pole, the vivid artistic perception of the Italian, the Jew's intensity, the German's thoroughness, the Irishman's *verve*, the tenacity of the Englishman, with the initiative and versatility of the American. The pessimist, on the other hand, fears the worst. America, he believes, is committing the unpardonable sin; is contracting a *mésalliance*, grotesque and gigantic. We are diluting our blood with the blood of lesser breeds. We are suffering adulteration. The stamp upon the coin—the flag, the language, the national sense—remains, but the silver is replaced by lead.

All of which is singularly unconvincing. In our own families, the children do not always inherit the best qualities of father and mother, and we have no assurance that the children of mixed races have this selective gift and rise superior to their parent stocks. Nor do we know that they fall below. We hear much about "pure" races and "mongrel" races. But is there in all the world a pure race? The Jew, once supposed to be of Levitical pureness, is now known to be racially unorthodox. The Englishman is not pure Anglo-Saxon, the German is not Teutonic, the Russian is not Slav. To be mongrel may be a virtue or a vice. We do not know. The problem is too subtle, too elusive, and we have no approved receipts in this vast eugenic kitchen. Intermarrying will go on whether we like it or loathe it, for love laughs at racial barriers and the maidens of one nation look fair to the youth of another. Let the kettle boil, and let us hope for the best.

243. The Rationale of Eugenics³⁹

BY JAMES A. FIELD

A review of what has been accomplished in the field of eugenics during the last decade clearly reveals that most of the solid writing and of the really scientific and useful work has come from the biologists. The competent student of economic and social questions has rendered little aid. Perhaps until now his abstention from the discussion has been wise. Experts were not needed to repeat the memorable suggestion that a civilization which should acquire control over the qualities of the human breed might thereby control human welfare also. That suggestion, vital in itself, has been readily enough kept alive by the conviction of the inexpert that anything is the better for tinkering; meanwhile, the biologists have been coming more and more to the conclusion that whoever can determine marriage selection in the present will determine, within large limits, the physique and intellect of the future, and will become in a new sense the maker of history. But in proportion as the biologist foreshadows the physical possibilities of heredity and selection, the want grows for wisdom with which to utilize them. What sort of history, then, is best worth the making? What sort of history does it lie within our power to bring to pass? Is this momentous marriage selection, from motives half rational, half mystical, in their veneration of the continuance of life, to prevail in spite of popular ignorance and passion? Or, leaving this question of practicability for experience to decide, is it after all sensible to burden the present generation with concern for generations of the future whose needs we can hardly foretell; and, in subservience to the science of the day, to repudiate instinct older than all human experience by "falling in love intelligently"? We have need of a social philosophy to tell us how far eugenic reforms are reasonable and worth while.

Even in its broadly biological aspects eugenics is involved in the long-standing demarkation dispute over the respective jurisdictions of man's artificial control and the unmodified course of natural evolution. Less than twenty years ago one of the greatest of biologists, writing on this very subject, declared in no uncertain terms his disbelief in the practice of artificial selection as a means of human betterment. Knowledge has grown, no doubt, since *Evolution and Ethics* was written, and new discoveries have gone far to discredit Huxley's belittlement of the potency of human selective agencies. The details of the biological mechanism by which changes are effected have become far better known. More dubious is the question

³⁹Adapted from "The Progress of Eugenics," *Quarterly Journal of Economics*, XXVI, 61-67. Copyright, 1911.

how much advance has been made toward a wise guidance of such agencies. For Huxley, there was "no hope that mere human beings will ever possess enough intelligence to select the fittest." Possibly the social consciousness of a people is an abler guide than he recognized. Perhaps, although the fittest state of society is beyond our perception, we may achieve by means of eugenic selection a succession of experimental changes which seem to us for the better. But still the order of nature decrees that eugenic experiments made in haste are repented at leisure. The eugenist who modifies the race type in the present predetermines for better or worse the mental and physical endowment of distant posterity. In the final analysis, eugenics, like other attempts at lasting reform, must move with the stream of processes which preceded human intervention and limit it still. While in such a stream a steered course may well be better than mere drifting, the eugenist in action must always proceed with the caution of one who reckons with the inscrutable.

If the task of eugenics were to establish a new aristocracy of inborn ability, the prospect of success would be less obscure. The historical institutions of ruling castes and hereditary nobilities have shown that the special capacity which in one generation after another can seize upon and retain for itself special opportunity has long been competent to raise the family line of its possessors above their less favored fellowmen. Now modern biology, from a new standpoint and with new significance, reasserts the privilege of birth. It is not surprising, therefore, that writers arguing for the eugenic selection which shall perpetuate and intensify exceptional ability, have virtually proposed an aristocratic social order of a novel kind. But every preferment of the abler members of a community is tantamount to a degradation of the less gifted. To create an exclusive caste founded on eugenic superiority would be to intensify the unhappiness of such persons as are already inferior. The principle of the survival of the fittest normally involves wholesale sacrifices of the unfit; but such unmitigated rigor of selection does not commend itself as a humane method of social amelioration. Nor is the temper of the times favorable to aristocracies of any sort. It calls for a general betterment of the whole mass of mankind.

Can eugenics bring to pass this universal improvement? Probably many a devoted follower of the cause has assumed that if its benefits can be realized by any they might be extended to all. Such was the vision of Greg: "Every damaged and inferior temperament might be eliminated, and every special and superior one be selected and enthroned, till the human race, both in its manhood and its womanhood, became one glorious fellowship of saints, sages, and

athletes; till we were all Blondins, all Shakespeares, Pericles, Socrates, Columbuses, and Fenelons." But to hold such opinions is to ignore the relativity of success and to miss the very meaning of eminence. In a world of Blondins a tightrope walker would command no profit or applause. A world of great teachers would lack pupils to be taught. The unknown continent which everyone had found could hardly immortalize its multitudinous discoverers. Nor could any one master-dramatist make mankind his audience so long as all clamored with equal right for hearing. Unfortunately, too often we overlook, in our projects for reform, the comparative character of individual attainments and individual happiness. We bemoan the rarity of greatness, forgetting how largely the exceptional individuals whom we call great are great because they are exceptional. If, then we are to elevate the whole community, we must work with a standard free from the element of invidiousness; for no social reform can achieve a general improvement of men's positions relative to the positions of their fellow-men.

Apparently, then eugenic selection is concerned not with the conditions of eminence but with the conditions of efficiency. It must work for the internal efficiency which we roughly call sanity and a good constitution, and for the external efficiency which enables an individual, regardless of the comparative efficiency of other individuals, to make steady progress in forcing his non-human surroundings into conformity with his needs. Doubtless the distinctions here applied are definite. For instance, the personal advantages of health and strength are diminished if equal physical vigor becomes the possession of all. Unusual prowess in exploiting external physical resources has notoriously been among the most potent causes of inequality. Yet, in a civilization which already ministers by palliatives to ill health, and in which the distributed burden of caring for the incompetent almost certainly drags more heavily on those who are stronger than would the potential competition which incompetency now holds in check—in such a civilization, the promise of gain to come from the eradication of feeble-mindedness, or insanity or the proneness to consumption would outweigh any new stress of circumstance which it would involve. And with this alleviation of the miseries from within might come augmented economic efficiency, not of the few but of the many; a general and continuous advance in those characteristics of body and mind which make for man's larger control of heretofore reluctant gifts of nature.

If this sketching of the possibilities is even roughly true, it calls again for the verdict of the biologist. But it is by no means only the biologist whose judgment is required. Again and again, in the

light of biological discoveries a more adequate answer must be sought to that crucial question, the significance of which the biologists have mostly failed to comprehend: Granted that by rational marriage selection certain recombinations of human characteristics can be effected at will, what eugenic policy promises the maximum increase of human welfare? To aid in answering this question the economist is needed. For health and strength and intellect work out the good or ill fortunes of their possessors according to the ways of economic civilization, and not by process of brute struggle for existence. Eugenics is not mere biology. The problems of eugenics are problems of human society.

I. THE POPULATION PROBLEM OF TODAY

244. Population Pressure in Japan⁴⁰

BY WALTER E. WEYL

Of all Japanese problems that of population is the least discussed, the least understood and the most important. Everything in Japan turns on this question; every phase of policy, every hope, ambition, effort is unconsciously affected. Japanese emigration, Japanese expansion, Japanese domestic and foreign relations, Japanese groping toward industrialism—all find their agent and cause in great part in this blind outpouring of infants. The flood of babies, upbuilding or devastating as we look at it, is the most significant fact in modern Japan.

Somewhere about the year 1700 the Japanese population reached the point where under the economic conditions then existing it was unable to advance. Thereafter for a hundred and fifty years it fluctuated between twenty-four and twenty-seven millions, these totals, however, not including the noble class and the beggars. The country was full up; there was standing room only. There was no more rice or millet or fish to feed the new babies although the land was cultivated to the last acre and the seas were scoured. Babies were born but they died. Population was held down by disease, pestilence and starvation. Gradually, too, the people learned ways to lessen births. Among nobles and well-to-do merchants late marriages came into vogue, and in the large cities skilled physicians practiced birth prevention. By the middle of the nineteenth century an equilibrium had long since been established between birth-rate and death-rate. The birth-rate was probably lower than in any country in Europe.

⁴⁰Adapted from "Japan's Menacing Birth-Rate," *Asia*, XVIII, 129-32. Copyright, 1918.

Then came Perry, the breaker down of Japanese isolation, the restoration, the new factories, the growing world-power of Japan. Figuratively it was Perry who called forth the millions of Japanese babies. The unconcealed guns of the commodore created commerce and an industrial system, and out of these arose astonishing cities of factory workers. Japan drifted into the full tide of a giddy industrialism, which meant wealth for the few, a strenuous poverty for the many, congestion, speed, and babies. As the factories grew and as the new cities overflowed into adjacent rice paddies, babies—the future factory workers and docile clerks—poured forth unceasingly from the farms. As in other countries, new to industrialism, the birth-rate outstripped custom and expectation.

In Japan the birth-rate was stimulated by patriotic and religious motives, which heavily emphasized the duty of parenthood. In fact the whole political and social philosophy of Japan favored the abstemious and therefore fecund type. Japan's thought ignored the material needs and desires which have held the population of the Western World in check. Life was cheap; children cost little, and, since they could early be employed, paid for themselves. Even today, when industrialism has taken a firmer root, one cannot look about at the frail little houses, the cheap cotton clothes, and the inexpensive food and furnishings with which Japanese workers seem content without realizing how weak are here the instincts which in our Western countries tend to set a limit to the population.

Once the lid was off the new industrial system demanded millions of cheap workers. The millions were born. Since 1870 the growth of the population has been portentous. In 1874 there were less than 34,000,000 men in Japan proper; today there are more than 56,000,000. This is a fairly high rate of increase. What is most significant, however, is that the rate of increase is itself increasing. In 1886 there were 28.8 births per thousand; in 1911 there were 33.7. The death-rate remains stationary; the birth-rate steadily grows. Because of this growing birth-rate the crowded population of Japan is increasing at the rate of three-quarters of a million per year. Where is room to be found for these new millions?

In agriculture, where the average farm of today is already less than three acres? It is to the fields that man looks instinctively for his support. It is so in Japan as elsewhere. Unfortunately there is a rigid and harsh law in agriculture, a law of nature and not of man. It is the law of decreasing returns. The law decrees that beyond a certain point every added laborer employed and every dollar invested on a farm bring in a smaller return than the former laborer employed or the former dollars invested.

The visual impression that one gets of the Japanese countryside is that the fields are already overcrowded. The country seems one long, straggling, inchoate village. The clustering men, the ubiquitous women and children seem to have crowded the domestic animals from off the land. In many parts of the country this is literally true. A horse or a cow takes up too much room for its support. Since farms are dear and fodder expensive, the tiny farms in the more densely populated parts of Japan swarm with men and are bare of domestic animals.

When we grasp the smallness of Japan and the size of its population, we understand why the land is so crowded. Japan proper is a narrow and diminutive country. Its area of roughly 150,000 square miles is somewhat smaller than that of California, while its population is twenty times as great. Moreover, Japan is chiefly a country of mountains and its arable land amounts to only some 25,000 square miles. It follows that Japan is the classic land of intensive agriculture. Its dwarf farms are really not farms at all in our sense of the word, but gardens. They are merely little squares of land, now covered with water, now filled with mud drying in the sun, and now vividly green with rice plants. The living to be made out of these pretty farms is of the meagerest. The farming is the most meticulous in the world. Every inch of ground is most carefully cultivated, every possible saving sedulously made. By dint of hard labor and hard scrimping the Japanese manage to secure some sort of living from their three acres. While the yield per acre is great; the yield per farm or per family is extremely small.

In a majority of cases this petty farmer does not even own his own farm. The lot of the tenant is even worse than that of the small proprietor. For him there is very little surplus and next to no opportunity to acquire property of his own. Land values are high. Good lands sell for about \$800 per acre. The price of the upland farms is about half as much. The pressure of population upon the small farm area raises land values to a point where it is extremely difficult for a tenant to become a proprietor.

But for the rural trades, and especially the silk industry, many of these little farmers could not live at all. It is the American demand for raw silk that saves the smaller Japanese farmers from being crushed. In all over 1,700,000 Japanese rural families devote themselves to this and other occupations, and thus eke out the scanty returns from agriculture. Of the farming families almost a third have some occupation subsidiary to farming.

Thus the Japanese farmer, assiduous, economical, and hard-pressed, has managed in the past to hold his own. In fact he has

more than held his own. By means of better farming methods, governmental guidance, and favorable changes in agricultural world-conditions the Japanese farmer has bettered his conditions. Yet this improvement cannot go on indefinitely. Nor will the small farmer forever be contented with his meager earnings. In Japan, as elsewhere, the city offers social and intellectual pleasures not obtainable on the farm. So powerful is the attraction of even the slums of the great cities that the exodus from the farms becomes greater every year.

Finally there is little chance of improvement in intensive cultivation. Intensive cultivation is the most wasteful farming in the world; while it saves material it is excessively lavish of human labor, the most valuable commodity of all. Japan seems, therefore, to have reached the stage where the pressure of a growing population upon the farmland of the country will become increasingly intense. The movement from the country to the city will be sharply intensified. The new children will be met at manhood with the alternative of finding a place in Japanese factories, workshop, and offices, or else of taking ship and emigrating.

In Japan itself, however, there seem to be few misgivings concerning the population problem. The steadily rising birth-rate is hailed by all classes as a healthy sign of development. In part, no doubt, this optimism is due to the general hopefulness of the people. Japan's recent military successes have inspired in the people a vast self-confidence. Her industrial successes have had a similar effect. Her factories are multiplying, her commerce is expanding, her merchant marine is increasing by leaps and bounds. Japan's attitude toward the population is like that of England a hundred years ago. Japan still believes the more babies the better. The high birth-rate seems to fit in with the main trends of thought in the empire. It suits the militarists, who believe that Japan to become a world-power must have a population of one hundred millions, to exercise the outward pressure which will move frontiers and change the face of the world. To have empire, say the imperials, we must have children. We must have children, say the capitalists, to have cheap labor and successful industries. Let us have children, cry all the Japanese people, to maintain our institutions, our religion based upon ancestor worship, our family piety, our ancient rule of simple living and hard work.

The majority of men, and still more of women, upon whom the brunt of this pressure falls, are as yet unrepresented in these discussions. The fathers of most Japanese babies are voteless and speechless; they do not discuss social problems. Yet they, too, if they were consulted, would doubtless agree that large families were of benefit

to the emperor and the empire, and theories or no theories they continue to breed. Because of this population pressure, Japan today is beset by perplexing difficulties, by divided counsels, by an uninformed discontent, which pushes her forward into all sorts of adventures. She is in the shadow of a great trial.

As England profited by her birth-rate a hundred years ago, so Japan may do in the twentieth century. But the situation is not entirely the same. England then possessed a far smaller population than Japan now possesses; she had greater agricultural and infinitely more valuable mineral resources; she was a pioneer in industrialism, whereas Japan is only the latest recruit. Moreover, England, during the period of her highest birth-rate, was able to send her surplus population not only to her own empty colonies but also to the United States. Japanese emigration, on the other hand, is thwarted and checked.

Japan must meet the problem of adjusting her political and economic development to her increasing birth-rate. She must meet this problem under difficulties greater and more perplexing than those which have faced the other nations in their great trial.

245. The Threat of Emigration⁴¹

BY FRANCES A. KELLOR

America today faces a situation unparalleled in its history. Hundreds of thousands of immigrants are clamoring to leave its shores, held back only by passport restrictions and food scarcity abroad. Whether these men will be replaced by others is not known. The land which once held the imagination of all wanderers is now distanced by prospective republics and by South America and Canada.

Active preparations are being made by immigrants for leaving the country as soon as passport regulations are lifted, the peace terms are known, and food conditions abroad will permit. The estimates vary between one and three millions. Whatever the number, today throughout the country men are saving money to return, ticket agents are doing a landslide business in reserving space, and steamship offices are thronged with men clamoring to go back. Strong appeals are being made to immigrants to go back and help rebuild the homeland, and recognition in position and leadership are being held out. The half-naked Slav in the steel mill dreams of the day when he will help direct the affairs of his nation, when with his savings, there reckoned as wealth, he will become a leader, and he dreams not in vain. To lose a million workers upon whom America depends to

⁴¹Adapted from "Immigration in Reconstruction," *North American Review*, CV, 199, 202-4. Copyright, 1919.

fulfil her obligations abroad and to hold the lines in her basic industries is no small task. To exchange them for battle-scarred and tired workers requires careful adjustment. To return the man with license replaced by liberty, with the sense of destruction replaced by construction, with revolution stilled by evolution in exchange for the lawless hordes now arising in Europe is no small responsibility. To handle this vast migration of peoples with the least possible loss of man power, of waste of savings and resources, and of stability and purpose is worthy of America's best thought and effort, and it has received but a passing thought from the nation.

America has no policy as to whether it will attempt to retain them and if so what the methods will be, or whether it will bid them God-speed, adding as much as possible to their equipment to help them in the new task. Every immigrant who goes back could have been made a missionary of the American spirit, an advocate of American business, a salesman of American goods, as well as a champion of democracy. Instead, the indifference and neglect with which they have been treated has given many no real love for the American brand of democracy. Today, allies though they are, they are being exploited by steamship ticket agents who are selling them tickets on vessels whose sailings are unknown, and no provision is being made for their care at the seaports. They will arrive on the coast with their savings, with their faces turned eastward with the hope of seeing those from whom they have not heard during the war, and America will permit them to be exploited as they leave just as she did when they first came to her. Every such tale told on the other side dims the glory of the Americans who fought in France.

These men and women will go back because of loyalty to the suffering home country, to see what has happened, to settle up family matters, to help the home country and to work out democratic ideals of government in a country free at last. They will be men of position and leadership in their homeland. It is of vital significance what America gives them to take back with them and what their last impressions are. These depend primarily upon what their experience and life and treatment in this country have been.

The nation has no single policy which reaches all of its immigrants and which surely equip them to interpret America to their native homes. It has no official program or organization for safeguarding them while here or of insuring a safe and sympathetic departure. It has none of the courtesy of a host; it has not the powers of the despot. If America were to decide tomorrow that she would make efforts to keep her immigrants and interest them in America, along what lines would she proceed?

246. War and a Population Policy⁴²

BY JAMES A. FIELD

The suggestions of the following paragraphs are not put forward as prophecies, but rather to indicate some of the possibilities which may have to be dealt with when the great conflict comes to an end and the processes of readjustment begin.

The direct effect of the war upon the populations of the belligerent nations are but too terribly apparent. Not only have deaths and incapacitating casualties run into the millions; not only is there this enormous loss of numbers—the wastage has been so concentrated among males of fighting age as to work a serious distortion of the population structure. Economically, the proportion of producer to consumers has been reduced. Biologically, the balance of the two sexes is disturbed in the reproductive years of life and the capacity of monogamic increase is correspondingly impaired. Even though birth-rates may nevertheless rally at the close of the struggle, this disproportion of ages and sexes cannot thereby be corrected. It will leave it, disfiguring and disabling effects for decades to come.

No: will the present population alone bear the scars. If there is any significance in heredity, and any truth in the contention that modern warfare accomplishes an adverse selection through the slaughter of the physically bravest and best, then the new generation, and through it posterity, must be the continuance of an impoverished breed. This, too, is a damage that mere volume of births can hardly mend. The two inches of average stature which the French people is said to have lost in the Napoleonic wars were lost in spite of a tolerably vigorous revival of the birth-rate after those devastating campaigns. Though we may question whether the selective agency of war operates with such obvious effect upon the human characteristics of body and mind that most concern us, we cannot well doubt that lasting modifications of our racial endowment are now in process on the battlefields of Europe. It does not follow that deterioration will be at once manifest when the next generation succeeds to leadership in Western civilization. Indeed, it is more to be feared that civilization may conform itself imperceptibly to the lowered standards of a depleted stock. In any event, history that might have been is now cut off with the lives of those whose unborn descendants would have made it.

With the return of peace we are likely to see the beginnings of new public policies with reference to problems of population. For this there is historical precedent as well as inherent probability. The

⁴²Adopted from "Problem of Population After the War," *American Economic Review*, VII (Suppl.), 233-37. Copyright, 1917.

wars of 1866-71, which left a unified German Empire confronting the shaken military power of France, gave a special incentive to the fostering care of the population at home and abroad which has marked the state policy of imperial Germany. The Malthusian doctrine, itself an indirect product of the French Revolution, and long a dominant influence in French economics, almost abruptly lost its vogue in France when first the menace of a unified Germany and then the humiliation of actual defeat gave rise to the more militaristic views which characterize the French attitude on population today. More recently the growth of the English eugenics movement following the Boer War has afforded a fresh reminder that population policies are often tested by fighting.

In the past the concern of nations for questions of population has been based on a conviction that the balance of population is the balance of power. Superiority of numbers was, of course, not all; it was also felt that the requisite national wealth should be forthcoming. Doubtless, so long as the requisite military equipment is available, the military importance of great numbers of men is hard to exaggerate. But the technique of modern warfare demonstrates how little can be accomplished hereafter by men alone. War is more and more a supreme development of industry and finance. Nations which prepare for war must shape their policies accordingly. Quite possibly the economic power to wage a successful war will not be found greatest where there has been the greatest increase of population.

At this point the program of military preparedness encounters the standard of living. We are familiar with the notion that a man's standard of living is defined by the wants he insists upon satisfying before he is willing to enlarge his family. If, now, he is compelled to make contributions to the state treasury for military purposes, this public demand upon him takes precedence over even the preferred items of his private wants, and tends by so much more to reduce the part of his resources which might be devoted to provision for children. No nation, therefore, that has to reckon with the voluntarily small family can expect to add indefinitely to the burdens of taxation without encountering a still further restriction of births. Efforts to achieve preponderance of armaments and organization may threaten the loss of preponderance in men.

In war time standards of living change and their effects on the birth-rate are modified. Motives of patriotism lead to a cutting down of the scale of personal expenditure, the more easily because at such times a universal rivalry in acts of patriotic devotion supplies an equivalent for the various emulative conventionalities of ordinary life. Moreover, by challenging the nation's power to survive, war

seems to intensify the demand for children. Possibly a change of attitude is foreshadowed by the present revulsion of feeling against bearing children for slaughter. However, all these considerations are aspects of the psychology of war. They accompany phases of social life which are happily exceptional. It is in the longer intervals of peace, when standards of living operate more normally, that populations are replenished, war chests are filled, and the debts of old wars are paid off.

Aside from all questions of future military establishments it has yet to be seen if the stupendous debts that are now rolling up can be carried and eventually repaid without serious disturbances in what has been the prevailing rate and manner of the increase in population. The economic choices of Englishmen and Frenchmen and Germans for years to come will have been already exercised for them vicariously to an oppressive degree. This is the natural consequence of deficit financing in times of war. How disturbing may be the effects upon habits of consumption, and, through standards of living, upon population, can only be conjectured. This whole vague but momentous issue lends new interest to the question of how the burdens of war taxation are to be distributed in the coming years among economic and social classes.

The problem of the differential birth-rate is likely to assume a special importance in the United States after the war. Our well-to-do, and highly conventionalized classes are closely influenced in their manner of life by the ways of the corresponding classes abroad. If the war unsettles economic class distinctions in Europe, we may expect an indirect unsettlement here. But we have our own disturbances as well. The munitions contractor and the whole group which he typifies will confront us again with the familiar and troublesome social ferment of a *nouveau riche* class arising from the commerce of war time. So long as birth-rates are sensible to emulative standards of living, the balance of increase among different classes will hardly pass unshaken through such an economic readjustment. We must prepare for a fresh crop of small families with large fortunes, and for a revival of restiveness on the part of those persons who see in that phenomenon disregard for an indispensable condition of national welfare.

In current discussion of questions of eugenics and birth control, a most helpful part has been taken by women. To the intelligent woman the importance of such questions is self-evident. She looks upon them sanely, frankly, and earnestly. She finds herself less embarrassed by self-consciousness in such discussions than do most men, because she is more conscious of the race interests which are at stake.

If a period of reaction should follow the war, with the effect of exaggerating masculine virtues and reducing the opportunities for influence permitted to women, progress in dealing with fundamental problems of population would be seriously set back.

Our national consciousness has been quickened by the events of the last two years. Unfortunately national interference in our population questions has heretofore been too typically negative. It has manifested itself in minor restrictions of immigration and in the enactment and sporadic enforcement of censorious blue laws designed to compel parenthood through ignorance. But a changed attitude may come with our desire for a thorough-going national preparedness and with the awakening sense of our obligations, as a nation in a world of nations.

Precisely what form a national population policy might best take in this country remains problematical. Probably it would provide for the adequate segregation and care of hereditary defectives. Possibly it would include a system of maternity benefits. Certainly it should recognize that parenthood is affected with a public interest, and that those parents who accept and perform their function with a due sense of its social responsibilities must in fairness be safeguarded and sustained in the performance by the community which is a beneficiary of their conduct. Such a program might necessarily grope its way slowly at first. Yet, if an enlightened spirit of nationalism shall but lead us to make a beginning, then at least one good thing will have come out of the war.

XI

THE PROBLEMS OF ECONOMIC INSECURITY

That "fortune is fickle," that "life is insecure," and that "no one knows what a day may bring forth," are among the oldest and the best attested generalizations from human experience. The problems associated with insufficiency of food, accident, sickness, and old age—with sowing where one never reaps—we have, quite proverbially, always had with us. But under modern industrial conditions, in a developing system, such questions are so closely related to the whole complex of life that it is necessary for us, collectively as well as individually, to "take thought for the morrow."

The machine system, production on a large scale, pecuniary competition, dependence on distant and future markets, the rapid development of technique, the delicate organization of the "industrial machine" and the scheme of prices, the currents which carry the shock of disturbance throughout the system, the alternation of business optimism and pessimism, the violent rhythm of the economic cycle, the onward sweep into an unknown future—all of these things prevent us from adequately guarding against what the morrow has in store. The insecurity of capital is attested by failures to find purchasers for goods, by falling dividends, by business failures, by the sudden disappearance of capital values. But these things were discussed in connection with the economic cycle. It is the insecurity of the laborer which concerns us here.

To grasp the problem as a whole we must appreciate the peculiar position of the laborer in the machine system. This can best come from contrasting, say, the villein on the manor with the modern industrial "hand." Custom granted to the former the use of the same land year after year, exacted from him a fixed rent, forbade his dispossession, and made his position permanent. He and the land formed an inseparable industrial unit: there was always something for him to work with; what he produced he had. The problem of want might indeed confront him; but it was associated with a raid of an alien feudal lord upon his manor or the failure of the elements to grant a full yield from the earth. The group to which he belonged was established upon a "personal" basis, and was possessed of a spirit of solidarity. He possessed as long as they possessed.

In modern industrial society, on the contrary, there is no permanent association of the laborer with the instruments of production. He secures equipment with which to work by means of a "contract," expressed in pecuniary terms, and running for a stipulated period. He owns no equities in the property with which he works. When the contract expires, it need not be renewed. No other property owner is compelled to make a new contract with him. The bait of higher wages, drawing him from place to place, is likely to prevent his identification with a group animated by a spirit of solidarity. He has the tremendous advantages which come from freedom of movement and the chance to take advantage of the best opportunity which presents itself. He has the disadvantages which attend short-time contracts. These last are outgrowths of two sets of conditions; first, those affecting employment, causing it to increase or decrease, and to pay higher or lower wages; and second, his own industrial powers, which may be partially impaired or even totally collapse, from accident or sickness to which he is exposed. When they are gone, as they will eventually be in old age, he has no respectable surety of support

This larger problem involves several minor problems, very closely connected, and yet possessed each of its peculiar aspects. Unemployment, perhaps the most difficult of these, is closely associated with the short-time contract. With changing business conditions, the employer, who is dependent upon pecuniary returns, may find it impossible to renew old contracts. Changes in technique, the disappearance of his market, and a thousand other causes may contribute to this result. It is rendered more serious by the ebb and flow in the demand for labor, which is closely associated with the rhythm of the business cycle. Unfortunately the supply of labor, unlike currency, is not possessed of the necessary elasticity to meet the changing conditions. The risks are too unpredictable for insurance to become more than a palliative. The solution of the larger problem is, in general, associated with that of the other problems of the cycle.

Industrial accidents occur because we have not yet learned absolutely to control the dangerous natural forces which we have pent up in our machines, and because we have not learned properly and exactly to adjust our movements to these huge engines of production—and destruction. In general their causes are resident in the system as a whole and cannot be directly imputed to “individuals.” Unfortunately, however, their consequences may be quite concentrated. They are no respecters of persons, and are as likely as not to rob of their productive abilities laborers who have families dependent upon them. The problem involves: first, a prevention of industrial accidents, attended as they are with great losses of productive power; and second, the devising of some legal measure to compensate the injured and innocent party for his loss.

Sickness and old age are serious social problems. The former, through the absence of the laborer and the breaks in the productive process which his absence entails, piles up huge economic costs. Unless assistance be rendered at the time of stress, sickness may lead to a great loss of productive power and in many cases to permanent dependence. Provision for old age, under short-time labor contracts, is difficult and rarely is adequate. But, even if individually made, there is grave doubt whether the saving involved does not deplete the income to such an extent as seriously to cripple efficiency. At any rate the feeling of insecurity is likely to hinder the laborer's performance of his work. A scheme of insurance should be able greatly to reduce the wastes incident to both of these universal occurrences. What is needed is a long-time calculation, based on the whole life of the laborer, not a series of short-time calculations such as labor-contracts make necessary.

Finally there is the problem of insecurity due to wages too low to yield a decent standard of living. There is just now a disposition to try to solve this problem by the establishment of “minimum-wage scales.” The problem is one of the most difficult in the field of economics. If the “natural,” or competitive, wage is to be set aside as too low, what standard can be found to determine the proper wage? Will there not be evasion of laws prescribing “artificial” wages? To prevent this, will not the government be compelled to regulate prices, service, hiring and discharge, accounting systems, discipline, etc? Will not the experience of the government in attempting to prevent rebates be duplicated? What will be the influence of regulation on the investment of capital in the industries involved? To what lengths, and to the adoption of what new social schemes, will this policy carry us? Can the project be made to succeed without a supplementary control of the supply of labor? Would it not be better to try to solve the question through an attempt to decrease the numbers of the lower class, and through technical education? It seems, from the study which we made above of “artificial price determination,” that prices seriously at variance with competitive prices cannot be enforced. Such an attempt would have far greater chances of success if accompanied by efforts to restrict the supply or increase the efficiency of labor. A conscious “control of births,” a restriction of immigration, vocational guidance, and compulsory technical training should do much to make the minimum

wage effective. If we can wait for slowly changing conditions to produce results, and if we do not force a single proposal to carry the whole burden of raising low wages, eventually we should expect success.

The problem of economic insecurity occurs in its most aggravating form among unskilled and unorganized laborers. State aid will help them; but it will not free them from the necessity of working out their own salvation. Skilled and organized laborers should be able to solve their own problem through their effective device of collective bargaining.

A. INSECURITY UNDER MODERN INDUSTRIALISM

247. Competition and Personal Insecurity¹

BY THOMAS KIRKUP

Perhaps the most painful feature of the workingman's lot is the insecurity of his position. During the long periods of depression work is scarce and precarious, and he must go where he has a chance of finding it. At all times the changes in the labor market are so great and unexpected that he can hardly calculate upon a settled existence. Continual fluctuations of trade force him to move. He has no control, or only a very partial control, over the economic and social conditions under which he must work. A settled home, a piece of land for a garden, a fixed outlook for his family, and a reasonable prospect of a happy and comfortable old age, untroubled by the horror of losing such savings as he may have made, through want of employment, and of ending his days in a workhouse—these for a large proportion of the workmen in the industrial centers are unattainable blessings. Yet they are unquestionably such as every decent and honorable working man has a right to expect.

This condition of insecurity under the existing system of competition, however, is by no means a special evil of the workman. It is the common lot of all who are involved in it, and, not the least, of the capitalists who are exposed to ruin by it. The conditions of industry are not only beyond the control of the workmen who serve under the capitalistic system. They are beyond the effective control also of the individual capitalists whose function it is to direct them, so that competition frequently degenerates into disorder, and into an exterminating war carried on with all the weapons permitted by the law, and with many not permitted by law—underselling, adulteration, fraud, bribery, oppression of labor. In times when industry is expanding, this may not be so apparent, but when trade becomes dull, stationary, or retrograde, the struggle grows painful, and to many of the competitors disastrous. In this struggle many

¹Adapted from *An Inquiry into Socialism*, pp. 68-74. Copyright by Longmans, Green & Co., 1907.

capitalists are ruined, dragging down with them numbers of workmen who have no control of their economic position, and are helpless under the calamity.

This insecurity is essentially connected with the speculative character of the competitive business. As production is so often carried on for a market of unknown and incalculable extent, and for prices which, even if obtained, cannot be accurately foreseen, uncertainty must very greatly prevail, and the speculative spirit must powerfully affect the general course of business. This spirit of speculation culminates in the great Exchanges, disturbs legitimate trade, and not infrequently throws into insecurity, panic, and disorder the industrial operations of the country, sometimes of the civilized world.

In the history of the capitalistic system nothing is so extraordinary as the rapid development of mechanical power. It is only natural, when the prizes of success are so enormous and the penalties of failure so severe, that human ingenuity and energy should be wonderfully quickened. This development of industrial power still continues in every country where modern methods have been introduced. But there is a serious evil connected with it. This is the fact that labor, which is one of the greatest factors of production, is thrown out of employment through this excessive development of machinery. But as the laborers form the bulk of the population and should be by far the largest purchasers, the very force which tends to over-fill the markets tends also to restrict the purchasing power of the majority of the community. Thus industry under the competitive system runs and must run in a vicious circle.

All the phenomena of competitive anarchy find their worst development in the great commercial and industrial crises which continually recur, and now threaten to become not only universal but chronic. It is unnecessary to recount the familiar phenomena of an industrial crisis. We have a multitude of competing capitalists of every class with a market which may be as wide as the world. Each has a vague prospect of vast possibilities of gain before him, and when trade is favorable each is anxious to make the most of his opportunities. Machinery is improved, establishments are enlarged and better organized, production grows lively, vigorous, and rapid in an ever increasing ratio till it becomes an impetuous and feverish rush. Before long the over-filled markets are unable to take off the enormous supply. Goods will not sell. Embarrassments set in, followed by forced sales at any price. Inflation and over-confidence give place to insecurity and panic. Then comes the crash resulting in ruin to thousands of capitalists and in widespread depression and stagnation. Hundreds of thousands of workmen are thrown

out of employment. All the classes that depend on the operations of capital, that is to say the entire society, suffer more or less from the prevailing depression. And we have the fearful spectacle of starving multitudes in the midst of overflowing markets and store-houses; superabundant food and clothing and all the other means of subsistence, comfort and culture, but inaccessible even to those who are most anxious to work; vast numbers of men ruined through the very effectiveness and perfection of the productive forces which they have themselves created. The workers starve because they have produced too much and too well; through the action of mechanical forces which have been created, but are not duly controlled by man.

So long as these productive forces are wielded in such a chaotic way by private capitalists competing for a world-market, without adequate knowledge of its needs, without arrangement with each other, without system and prevision, so long must such disorder last. The capitalist, too, suffers fearfully, but it is the workman that must usually bear the heaviest burden of privation and wretchedness.

248. Machinery and the Demand for Labor²

BY JOHN A. HOBSON

The motive which induces capitalist employers to introduce into an industry machinery which shall either save labor, by doing the work which labor did before, or assist labor by making it more efficient, is a desire to reduce the expense of production. A new machine either displaces an old machine, or it undertakes a process of industry formerly done by hand labor without machinery.

When a new process is first taken over by machinery the expenses of making and working the machines, as compared with the expense of turning out a given product by hand labor, will involve a net diminution of employment. Proof of this is the introduction of the new machinery; otherwise no economy would be effected. Neither in economic theory nor in industrial practice is there any justification for the belief that the net result of improved machinery is a maintenance or an increase of employment within the particular trade, or even within the group of the interdependent trades engaged in producing or supplying a class of commodities. Still less support is there for this belief as applied to the trade of a particular locality or national area. While the introduction of new

²Adapted from *The Evolution of Modern Capitalism* (new and revised edition), pp. 317-34. Published by Charles Scribner's Sons, 1906.

labor-saving machinery in type-setting and printing has been followed by so large an expansion of business as to employ increased numbers of workers, recent improvements in most British textile mills, cotton, woolen and hemp mills, have been followed by an absolute reduction of employment. Statistics point to the conclusion that the further a nation advances in the application of labor-saving machinery to the production of goods which satisfy the primary needs of the population, the smaller the proportion of the total employed class engaged in these productive processes. The best available statistics indicate that the proportion of employment afforded by the staple manufacturers as a whole diminishes after modern machine methods are well established, and that the tendency is strongest in those manufacturers engaged in supplying ordinary classes of textile, metal, and other goods in the home markets.

In order to judge the net effect of labor-saving machinery upon the volume of employment, a wider view is necessary. If the first effect is to cheapen goods, we need not look to the expansion of demand for this class of goods to absorb the labor which it is the object of the machine to displace. We must look to the expansion of demand for other sorts of goods due to the application of the elements of income saved by the fall of prices in the first class of goods. For instance, if cotton goods are cheaper owing to improved methods of production, the chief result may be to increase the demand for furniture.

This wider outlook enables us to conclude that though the effect of machinery may be a reduction of employment in a special trade or group of trades, the general result must be to maintain the same aggregate volume of employment as before, provided the income liberated from a particular demand is applied to other demands for commodities. If, as may be objected, there is a simultaneous tendency to reduce the prices of most articles of ordinary consumption, by applying machine methods of production, the normal result would be to stimulate new wants, and so to create new channels of production yielding employment to displaced labor. That this is the fact in the world of industry no one can seriously doubt.

If the improvements of machine methods were regular, gradual, and continuous in the several industries, no considerable effect in reducing the volume of employment would occur. But where industrial improvements are sudden, irregular, and incalculable, natural adjustment is not possible. It is this irregular action which has proved so injurious to large bodies of laborers whose employment is subjected to a sudden and large shrinkage. From time to time great numbers of skilled workers find the value of their per-

sonal skill cancelled, and are driven either to acquire a new skill or to compete in the unskilled market. Yet history certainly shows that the fuller application of great inventions has been slow, allowing ample time for adjustment. In most cases where distress has been caused, the directly operative influence has not been introduction of machinery, but sudden change of fashion. The suddenly executed freaks of protective tariffs have also been a source of disturbance. So far as the displacement has been due to machinery sufficient warning has been given to check the further flow of labor into such industries and to divert it into other businesses. Moreover the changes which are taking place in certain machine industries favor the increasing adaptability of labor. Many machine processes are either common to many industries, or are so narrowly distinguished that a fairly intelligent workman accustomed to one can soon learn another.

Whether machinery, apart from the changes due to its introduction, favors regularity or irregularity of employment, is a question to which a tolerably definite answer can be given. When the employer has charge of enormous quantities of fixed capital, his individual interest is strongly in favor of full and regular employment of labor. On the other hand great fluctuations in price occur in those commodities which require for their production a large proportion of fixed capital. These fluctuations in prices are accompanied by corresponding fluctuations in wages and irregularity of employment. Why this contradiction? It is that in the several units of machine production we have admirable order and adjustment of parts. In the aggregate of machine production we have less organization and more speculation. Industry has not yet adapted itself to the changes in the environment produced by machinery. That is all. Modern machinery has enormously expanded the size of markets, the scale of competition, the complexity of demand, and production is no longer for a small, local, present demand, but for a large, world, future demand. Hence machinery is the direct cause of the fluctuations which bring irregularity of employment.

But there is another force which makes for an increase of speculative production. It has been seen that the proportion of the workers engaged in producing comforts and luxuries is growing, while the proportion of those producing the prime necessities of life is declining. Hence the effect of machinery is to drive ever and ever larger numbers of workers from the less to the more unsteady employments. Moreover, there is a marked tendency for the demand for luxuries to become more irregular and less amenable to calculation, and a corresponding irregularity is imposed upon the

trades producing them. This is true of many season and fashion trades. The irregularity of these trades prevents them from reaping the full advantages of the economies of machinery. A larger proportion of town workers is constantly passing into trades in which changes in taste and fashion are largely operative.

Thus there are three modes in which modern capitalist methods of production cause temporary employment:

1. Continual increments of labor-saving machinery displace laborers, compelling them to remain unemployed until they have adapted themselves to the new situation.

2. Miscalculation, to which machine-industries with a wide unstable market are particularly prone, bring about periodic depressions of trade, throwing out of employment large bodies of workers.

3. Economies of machine production drive an increasing proportion of laborers into trades supplying commodities, the demand for which is more irregular, and in which the fluctuation in the demand for labor must be greater.

249. Economic Insecurity and Insurance³

BY WILLIAM F. WILLOUGHBY

In a broad sense all forms of insurance may be described as social insurance, since social ends are attained by them. As the term is now employed, however, it is usually restricted to those forms of insurance having to do with contingencies affecting individuals as opposed to those affecting property. It looks to the conferring of pecuniary benefits in all those cases where for any reason the capacity of the individual to provide for the support of himself and those dependent upon him is lessened or destroyed. Stated in another way, social insurance sets to itself the task of meeting the problem of the economic insecurity of labor.

What are the contingencies causing this economic insecurity against which provision must be made in some way? On examination we find that a man's ability to support himself, and to make due provision for those dependent upon him, is lessened or cut off: (1) by his meeting with an accident incapacitating him, temporarily or permanently, partially or completely, from labor; (2) by his falling sick; (3) by his becoming permanently disabled for labor as a result of old age or failing powers; (4) by his death, leaving

³Adapted from "The Problem of Social Insurance: An Analysis," *American Labor Legislation Review*, III (1913), 159-60.

a widow, children, or others without adequate means for their support; and (5) by his inability to secure remunerative work.

To meet each of these contingencies resort has been had to the principles of insurance. Social insurance is thus a term that has been coined to serve as a collective designation of: (1) Insurance against accidents; (2) insurance against sickness; (3) insurance against old age and invalidity; (4) insurance against death, or, as it is more usually called, life insurance; and (5) insurance against unemployment.

Could a just and workable plan of insurance covering these several points be worked out, the problem of the economic security of labor, one of the greatest with which society now has to deal, would be solved. Is there any social problem more fundamental or more deserving of unremitting effort?

Our first analysis thus resolves the problem of social insurance into these five branches. This division is made not merely in order to bring out the content or orbit of social insurance. It is fundamental, since each of these branches of insurance has its own special features and problems. Insurance, notwithstanding the simplicity of the ideas underlying it as a device, is an exceedingly technical science. Particularly is this true where the human factor has to be dealt with. Still more is it complicated where a departure is contemplated from the system of purely voluntary, unencouraged, unaided use of the device on the part of individuals, and resort is proposed to the force of social encouragement, control and compulsion. Each of these five branches of social insurance thus has its own special problems and considerations; they are united only in respect to their ultimate social end.

These special problems can, in each case, be distinguished, for purposes of consideration, into three distinct classes: (a) the social, (b) the administrative, and (c) the technical. Of these the first is the most fundamental. Under this head falls the great question of upon whom shall fall the burden of making the contributions required for the support of the system. No real progress can be made until we, the public, have reached a conclusion regarding the problem of justice that is here involved. As a matter purely of right, of justice, of bringing about the widest possible distribution of welfare, how shall the financial burden entailed by the system be distributed? In seeking to reach an answer to this question we find that the choice lies between placing the burden in whole or in part upon either: (1) the beneficiary, or workman, (2) the employer, (3) the industry in which the workman is employed, or (4) the state.

B. UNEMPLOYMENT

250. Character and Types of Unemployment⁴

BY W. H. BEVERIDGE

To grasp the problem of unemployment and free ourselves from popular but erroneous notions on the subject, we must first get a clear impression of the nature of the industrial system.

The popular conception is of industry as rigidly limited—a sphere of cast iron in which men struggle for living room; in which the greater the room taken by any one man the less must there be for others; in which the greater the number of men the worse must be the case for all. The true conception is a sphere made of elastic material, capable of expansion and being in fact continually forced to expand by the struggling of those within. Each individual appears to be and, no doubt, to some extent is, pressing upon the room of his neighbors; the whole mass presses upward upon the limits within which it is for the moment confined; the result of a particularly violent struggle of one man for the room of others may be to enlarge appreciably the room for all.

This expansion of industry cannot readily be made visible, and is nowhere recorded in direct and comprehensive figures. It is and must always remain something of a mystery. It does not take place evenly. It is perhaps not a thing to be counted on forever. The sphere may at last lose its elasticity and cease to respond further to the increasing pressure from within. That, if it ever happens, will mean over-population, a diminishing return to labor, a falling standard of life, and, unless the growth of numbers be arrested, a gradual but certain return to barbarism for the immense majority of people. For the present it is sufficient to say that the time has not come; it is not within sight; it can barely be imagined. For the present the sphere of industry retains its elasticity. It expands, not indeed steadily, but still sufficiently for the people. It absorbs the generations as they come. It yields each fresh man on the whole more living and working room than fell to the lot of those who went before.

Yet with all this comes the perpetual cry of some who find no living and working room at all. The number of the unemployed never falls to zero. Many who recognize the indisputable facts of the expansion of industry and the rising standard of life are prone to deny directly or implicitly the existence of an unemployment

⁴Adapted from *Unemployment: A Problem of Industry*, pp. 11-14. Copyright by Longmans, Green & Co., 1908.

problem at all. If there are not too many workmen in a country, every man who wants to work must be able to obtain it. If any man fails to find room while all around him fresh room is opening up, he must be either unfit or unwilling to do so. He must be "unemployable," incompetent, lazy, sick, or infirm.

Yet unemployment is not to be explained away as the idleness of the unemployable. As little can it be treated as a collection of accidents to individual working people, or individual firms. It is too widespread and too enduring for that. While the final absorption of the growing population in the growing industry is accepted as being for the country still happily the rule, it is no less necessary to admit the existence of facts modifying the completeness of this absorption at certain times and places—indeed, at all times and places. There is no general want of adjustment between the increase of the people and the expansion of industry, between the rate of supply of fresh labor and the normal growth of the demand for it. There are specific imperfections of adjustment which are the causes of unemployment.

One of these has long been recognized. While industry, as a whole, grows, specific trades may decay, or change in methods and organization. The men who have learned to live by those trades may find their peculiar and hard-won skill a drug on the market and themselves permanently displaced from their chosen occupations, while lacking both the youth and the knowledge to make their way in new occupations.

A second type of maladjustment between the demand for and the supply of labor is found in actual fluctuations in industrial activity. Many trades, perhaps most trades, pass regularly each year through an alternation of busy and slack seasons, determined by climate or social habits, or a combination of both. Building is slack in winter and busy in spring and summer. Printers find least to do in the August holidays and most in the season just before Christmas.

Behind and apart from these seasonal vicissitudes of special trades, and affecting, though in various degrees, nearly all trades at about the same time, is a cyclical fluctuation in which periods of general depression alternate at regular intervals with periods of feverish activity. At such times of depression the industrial system does appear to suffer a temporary loss of elasticity; it fails for a while to keep pace with the steady growth of population; it gives—in a phase of falling wages and lowered standards—an object lesson of what might be expected if the supply of labor should ever come permanently to outstrip the demand.

These two elements in the problem of unemployment have long been familiar. A third, apparently far more important than either of the occasional transformations of industrial structure or the periodic fluctuations of industrial activity, is only just beginning to receive attention. This is the requirement in each trade of reserves of labor to meet the fluctuations of work incidental even to years of prosperity. The men forming these reserves are constantly passing in and out of employment. They tend, moreover, to be always more numerous than can find employment together at any one time. This tendency springs directly from one of the fundamental facts of industry—the dissipation of the demand for labor in each trade between many separate employers and centers of employment. Its result may be described as the normal glutting of the labor market. The counterpart of such glutting is the idleness at every moment of some or others of those engaged.

The three factors just mentioned—changes of industrial structure, fluctuations of industrial activity, and the reserve of labor represent, not indeed all, but at least the principal economic factors in unemployment.

251. An Ideal System of Labor Exchanges⁵

BY JOHN B. ANDREWS

It is apparent that our labor market is unorganized and that there is a tremendous waste of time and energy in the irregular and haphazard employment of workers. This waste we are beginning to appreciate; but methods for overcoming it in America have thus far proved inadequate.

The first and simplest method of bringing workmen and work together is by unsystematic private search. A man without work starts from home and drops in at every sign of "Help Wanted." This sign is the symbol of inefficiency in the organization of the labor market. The haphazard practice of tramping the streets in search of employment is no method at all. It insures success neither to the idle worker nor to the employer. On the contrary by its very lack of system it needlessly swells the tide of unemployment and often leads to vagrancy and crime.

It is impossible to reckon the cost to the community of this methodless method. Beyond the tremendous waste of time, there is the waste incurred in putting men into the wrong jobs. The law

⁵Adapted from "A National System of Labor Exchanges," *New Republic*, I (No. 8, Suppl.), 1-5. Copyright, 1914.

of chance decrees that, under such lack of care, misfits must be the rule.

A second common method is through the medium of advertising. About 2,000 newspapers in New York state carry every year some 800,000 columns of "Help Wanted" and "Situation Wanted" advertising, at a cost of about \$20,000,000—an expenditure of about \$5 for every worker in the state. If the money spent brought commensurate results there would be less ground for complaint. But unnecessary duplication of work and expenses by employer and employee is inevitable. In addition to expense, newspaper advertising possesses inherent possibilities of fraud not easy to detect. The victimized employee seldom seeks legal redress.

Philanthropic employment bureaus fail mainly because the taint of charity justly or unjustly clings to them. For the most part they have become bureaus for placing the handicapped. Self-reliant workmen are accustomed to shun such agencies, and employers do not generally apply there for efficient labor.

Private employment agencies, doing business for profit, have sprung up in all large cities. No fewer than eight hundred of them have been licensed in New York City alone. While many of them operate with a reasonable degree of efficiency, their general character is picturesquely if not elegantly indicated by their soubriquet, "employment sharks." Among the worst evils laid at the door of the private agencies are charging extortionate fees, "splitting fees with employers who after a few days discharge a workman, sending applicants to places where there is no work, and general misrepresentation of conditions."

Public employment bureaus in America date from 1890 when Ohio authorized the first state system. Today there are seventy or eighty such bureaus, maintained by nineteen states and a dozen or more municipalities. These offices charge no fees, maintain a neutral attitude in time of labor disturbances, and fill positions at a cost ranging from four cents to two dollars apiece. Notwithstanding the work of a few, these public bureaus are still far from furnishing an adequate medium for the exchange of information on opportunities of employment. Fewer than half of the states are represented. Many of the managers are political place-holders of worse than mediocre attainments. Some of the offices exist only on paper. A uniform method of record-keeping has yet to be adopted. Statistics are non-comparable and frequently unreliable. There is practically no exchange of information between various offices in a state or between states.

Although there are many causes of unemployment other than the malorganization of the labor market, these cannot be successfully attacked without a basis in comprehensive, conscientiously collected information such as cannot be furnished by our present machinery for dealing with the problem. Our paucity of information is a great hindrance to progress. Any scientific law-making on the programs of social insurance and of vocational guidance must be grounded on facts or relative employment and unemployment of the workers tabulated by trades, by sexes, and by ages. Without a nation-wide system of labor exchanges no basis can exist for anticipating in an accurate manner the ebbs and flows of the demand for labor. Without concentration of the information now collected and now separately held in thousands of organizations throughout the land, the possibility of looking into the future, or of profiting by the past, is out of the question.

It was a growing realization of the foregoing facts which inevitably led to the demand for a federal system of public employment bureaus. Such a system would cover the whole country. It would supplement and assist the work of state and municipal exchanges, dovetailing them with its own organization into an efficient whole. Country-wide co-operation and exchange of information would then be an accomplished fact instead of merely a hope. Statistics for the study of unemployment and for the progressive development of new tactics on the campaign against it would be coextensive with national boundaries and comparable between different parts of the nation. The regulation of private agencies would be a natural function of the bureau, and the troublesome interstate problem would be solved by an interstate remedy. Finally the greater resources at the disposal of the federal government would provide better facilities for carrying on the work and would command the services of more able social engineers.

To combine into an effective organization the results of the ripest experience, a national bureau of employment should comprise three main divisions: (1) the central office at Washington; (2) a number of district clearing-houses; and (3) the local labor exchanges. Let us briefly sketch the special functions of each.

The central office would have the task of organizing the entire system. Its first activity would be the establishment and conducting of public labor exchanges. These should be built up with careful regard to existing state and municipal bureaus and in as many parts of the country as circumstances require and finances permit. The

number of exchanges need not be constant, but can be varied in accordance with the needs of the labor market.

A second duty would be that of co-operating and encouraging, assisting, and to some extent regulating all the public employment offices conducted by other subdivisions throughout the country—state, county, town, or village. Here is the great field for the standardizing activities of a federal bureau. The scattered public agencies must be brought into co-operation with each other and with the federal system. It could devise a standard record system, encourage its adoption by the various agencies, and assist them in installing it. It could encourage the adoption of a uniform method of doing business and appraising results.

A third duty would be the division of the country into districts and the inauguration therein of district clearing houses. The fourth duty would be to carry on a campaign of the fullest possible publicity on the condition and fluctuation of the country's labor market. The fifth and last important function of a federal employment bureau is the troublesome one of regulating private employment agencies.

The district clearing-houses already mentioned are quite distinct from the local labor exchanges and should not be confused with them. The clearing-house finds no positions. Its functions are to exchange information between the local exchanges and between other correspondents in its district, to receive daily reports from all public exchanges within its jurisdiction and reports from private agencies at least weekly, and to compile and publish these data for the district. It also carries on an interchange of information with the clearing-houses in other districts. It is the channel through which all the officers of its district would keep in constant touch with the national headquarters.

The functions of the ultimate units in this system, the local labor exchanges, may all be summed up in the words "bringing together workmen of all kinds seeking employment and employers seeking workmen. The good superintendent of an employment office will not wait behind his counter for employers and employees to hunt him up; he will take active steps in the process. He will build up a clientele among both parties to the labor contract.

Thus the jurisdiction of the projected federal bureau would extend throughout the country. In addition to its regulative activities, it would operate exchanges, build up a clearing-house system for employment information, and publish and distribute that information wisely. In short it would do "everything possible to aid in securing the fullest application of the labor force of the country."

252. United States Employment Service⁶

BY WOODROW WILSON

For more than a year it has been our pride that not our armies and navies only but our whole people is engaged in a righteous war. We have said repeatedly that industry plays as essential and honorable a rôle in this great struggle as do our military armaments. We all recognize the truth of this, but we must also see its necessary implications—namely, that industry, doing a vital task for the nation, must receive the support and assistance of the nation. We must recognize that it is a natural demand—almost a right—of anyone serving his country, whether employer or employe, to know that his service is being used in the most effective manner possible. In the case of labor this wholesome desire has been not a little thwarted owing to the changed conditions which war has created in the labor market.

There has been much confusion as to essential products. There has been ignorance of conditions—men have gone hundreds of miles in search of a job and wages which they might have found at their doors. Employers holding government contracts of the highest importance have competed for workers with holders of similar contracts, and even with the government itself, and have conducted expensive campaigns for recruiting labor in sections where the supply of labor was already exhausted. California draws its unskilled labor from as far east as Buffalo, and New York from as far west as the Mississippi. Thus, labor has been induced to move fruitlessly from one place to another, congesting the railways and losing both time and money.

Such a condition is unfair alike to employer and employe, but most of all to the nation itself, whose existence is threatened by any decrease in its productive power. It is obvious that this situation can be clarified and equalized by a central agency—the United States Employment Service of the Department of Labor, with the counsel of the War Labor Policies Board as the voice of all the industrial agencies of the government. Such a central agency must have sole direction of all recruiting of civilian workers in war work and, in taking over this great responsibility, must at the same time have power to assure to essential industry an adequate supply of labor, even to the extent of withdrawing workers from nonessential production. It must also protect labor from insincere and thoughtless appeals made to it under the plea of patriotism, and assure it that, when it is asked to volunteer in some priority industry, the need is real.

⁶ From the President's announcement of the United States Employment Service, June 17, 1918.

Therefore, I, Woodrow Wilson, president of the United States of America, solemnly urge all employers engaged in war work to refrain after August 1, 1918, from recruiting unskilled labor in any manner except through this central agency. I urge labor to respond as loyally as heretofore to any calls issued by this agency for voluntary enlistment in essential industry. And I ask them both alike to remember that no sacrifice will have been in vain, if we are able to prove beyond all question that the highest and best form of efficiency is the spontaneous co-operation of a free people.

253. Cyclical Distribution of Government Orders⁷

BY SIDNEY AND BEATRICE WEBB

Without securing an approximate uniformity, one year with another, in the aggregate demand for labor in the community as a whole, it is clear that unemployment on a large scale cannot be prevented. The only possible way in which that uniformity can be secured is the use of the government orders as a counterpoise to the uncontrollable fluctuations in the other orders. If this involved the stopping of all government orders in good years and doing all the government work in bad years, the proposal would be an impracticable one, because the government business must go on continuously, whatever the state of the labor market. But the desired result can be achieved by rearranging, within the decade, no more than 3 or 4, or even 6 or 8 per cent of the work that would otherwise have been done evenly year by year. It is impossible to believe that so relatively small a readjustment is not possible.

It may be asked how this policy differs from that of relief works now so universally condemned. In reality the two policies are poles asunder. What gives to relief works their evil character, whether or not they are of any real public utility, and whatever rate of wages is paid, is that the men employed are taken on because they are unemployed. Accordingly, relief works are of the nature of relief, not prevention. They do not prevent the occurrence of unemployment; they do not prevent that breach of continuity in the workman's industrial life which is so harmful to him. They merely come in, by way of succor, after the breach of continuity has occurred. By having to take on only those men who have already been thrown out of work, and taking them on because they have been thrown out of work, the managers of relief works find themselves necessarily saddled with a heterogeneous crowd of workmen, who

⁷Adapted from *The Prevention of Destitution*, pp. 114-18. Copyright by Longmans, Green & Co., 1911.

are not individually picked out for employment because their specific services are required, in exactly due proportions to each other; but are taken *en bloc*, whatever their several qualifications and antecedents, just because they happen, at that particular time and place, to be together unemployed. It is characteristic of any enterprise of remunerative character that it involves a high degree of organization, division of labor, the employment of the various grades and kinds of workers required in a certain exact proportion one to another, and so on. The result is not being able, on relief work, to pick exactly the men having the skill and antecedents that are required, and of having, instead, to take on a heterogeneous crowd, is that no industrial enterprise of any highly organized character can possibly be undertaken, and the work accordingly can hardly ever be remunerative, or form part of normal productive industry.

But it is not so much in the extravagant cost, or in the wastefulness, or in the lack of real utility that the evil of relief work lies. It is in their bad effect upon the character of the men whom they are intended to succor. The taking on of the heterogeneous crowd, not to work each of them at his own trade, for his own standard rate, but to labor at some common occupation that can simultaneously find employment for them all; which is known to have been undertaken merely to give them employment, from which they cannot practically be dismissed; and where they receive wages at a rate arbitrarily fixed, to a view of what they can live on rather than to the market rate for any particular kind of labor, inevitably has an adverse psychological reaction on the men themselves and on the foremen over them.

Contrast this with the proposal to give the government orders for works and services unevenly, and more in the lean years, rather than unevenly year by year. The mere fact that, on the index number of unemployment beginning to rise, the government puts in hand slightly more building work than would otherwise have been the case, orders rather more printing, somewhat increases its shipbuilding, raises this year the amount of its orders for blankets and sail-cloth above the normal, and temporarily accelerates the rate at which the telegraph wires are being laid underground, and the telephone is being extended to every village, would not mean the taking on of any crowd of unemployed workmen anywhere.

What it would mean in the first place, would be that various building firms and printing establishments all over the country would find themselves relieved from the necessity of turning off men; some shipbuilding yards would be able to abstain from the necessity of reducing hands; the mills producing blankets and sail-cloth would

not need to go on short time; and the contractors for telegraph and telephone extensions would find themselves continuing in employment, and placing on the government work members of their staffs whom they would otherwise have had to dismiss. All this prevention of discontinuity in the employment and wages of tens of thousands of workmen all over the country, and, for that matter, also in the profits of hundreds of employers, would automatically result in preventing much other discontinuity elsewhere. Even the gramophone makers might find themselves continuously, instead of intermittently, employed!

Where employers, by reason of the enlarged government orders, had actually to engage additional men they would do so, not with a view of "employing the unemployed," not even of confining themselves to the men who were at the moment actually out of situations, but deliberately, in order to attract to their service, it might be from some other employer's service, exactly the kinds and grades of workmen, individually selected on their merits, as being the most skilful and the most regular workmen who could then and there be found, in exactly the due proportion one to another that the expansion of the particular business required.

There would in this way be no adverse psychological effect on the workmen, any more than on the foreman who selected them and supervised their efforts or in the employer who saw to it that the normal discipline of his establishment was maintained. Instead it would not even occur to any of them that there was anything "artificial" or abnormal in the government order for sail-cloth or other commodities.

254. The Relief of Unemployment^a

We therefore recommend:

1. That the Federal Bureau of Labor Statistics and the State Industrial Commission be given sufficient appropriations to enable the creation of a complete statistical "barometer of trade."

2. That organizers more competent for such a task than the present Committee undertake the study of the underlying economic causes of industrial dislocations which produce abnormal unemployment.

3. That a more widespread education of the people in the meaning and effects of financial crises and industrial depressions and in the fluctuations of prices, trade activity, and business prospects be

^aAdapted from *How to Meet Hard Times* (pp. 125-27), a report prepared by the Mayor's Committee on Unemployment, New York City, 1917.

made the means of preventing needless panics on the part of the consumers, and of encouraging expenditure on a normal scale.

4. That manufacturers prepare against the necessity of closing down or seriously curtailing production at times of depression by developing a production policy which, taking account of fluctuations in demand, (a) plans for the utilization of slack times to introduce new staple lines, (b) retards deliveries in good times, as far as possible, so as to have work on hand when the demand slackens, (c) diverts permanent additions to buildings, equipment and machinery, and other capital investments, important repairs and additions to stock from busy times to times of depression, (d) distributes such employment as there is, if production must be reduced, over as large as possible a proportion of the force by means of short time, without, however, depressing the earnings of individual employes materially below the minimum necessary to support family life.

5. That when trade crises threaten, the large financial and business interests co-operate to the fullest possible extent with one another and with the Federal Reserve Board to maintain stability of credit and to allay needless alarm, by widespread publicity as to the reassuring elements in the existing business conditions.

6. That banks and credit institutions, during periods of industrial expansion, distinguish carefully between healthy home industries reasonably sure of a permanent market, which deserve every encouragement, and industries of a more speculative and ephemeral character which should be induced to maintain their capital expenditures within the narrowest limits.

7. That the city of New York, with all due regard to the other factors that must be taken into consideration, attempt to make its expenditures for permanent improvements as far as possible inverse in total volume to the general rate of employment in the city.

8. That similarly the federal and state governments be induced to plan public expenditures upon permanent improvements over a period of years, withholding work which is not urgent at times of trade prosperity and speeding it at times of depression.

9. That, however serious such an emergency, a sincere effort be made by the public authorities and voluntary agencies of relief to classify those in need of assistance in terms of capacity for self-help, possession of resources, station in life, family responsibilities, age, health, etc.

10. That registration at a public or private employment bureau be uniformly adopted as an obligatory test of unemployment, and a condition precedent to payment of out-of-work benefits and relief by gift or loan.

11. That there be created either as a function of a "department of public welfare" or otherwise an office charged with the threefold task of (a) maintaining a current survey of the state of unemployment in the city; (b) keeping an up-to-date register of the city's relief resources which can be relied upon as elements in a city-wide co-operative system of relief should an emergency occur; (c) distributing information to social workers and others to whom persons in need are most likely to apply for advice, enabling them to direct these to the agencies most likely to be able to help them.

12. That at a time of abnormal unemployment the public authorities and the press encourage the benevolent public to support existing agencies equipped to relieve distress rather than create new funds.

13. That the incorporation of city, state and national co-operative associations for thrift and credit purposes be encouraged.

14. That the federal government take appropriate steps to organize the employment market through a nation-wide system of public employment bureaus, assuring the complete mobilization of employment opportunities and the available labor supply.

15. That measures be taken by the federal government at the present time to accumulate an insurance fund, and to devise the most effective means of inaugurating a workable system of unemployment insurance.

16. That relief employment approximate employment under normal conditions as nearly as possible, as regards the utility of the work done, the assignment of tasks suited to the needs of the workers, and the output expected of him in relation to the wages paid and to the degree of efficiency possible; it need not afford opportunities for specific industrial training, though this is desirable.

17. That relief employment, as far as possible, be organized only by such agencies as are already in intimate touch with the persons whom it is intended to aid; that relief employment wages be paid at an hourly rate sufficient to cover the minimum cost of living.

18. That the cultivation of vacant lots be taken into consideration as a useful method of relief employment if the necessity for it arise.

19. That the amount of relief given be adequate to insure that the total family resources cover the minimum cost of living.

20. That smaller neighborhood organizations be more extensively utilized by the larger relief societies as distributors of their relief grants.

21. That at times of abnormal unemployment organizations engaging in any form of relief to the unemployed register all families and individuals assisted in a central confidential exchange.

22. That relief in kind be made only supplementary to other forms of relief when found expedient to insure adequacy of the total amount of help given the individual; and that in the allocation of aid the needs of the family, not those of the person unemployed alone, be taken into account.

23. That shelter for persons made homeless through unemployment, but not permanently belonging to the vagrant class, be provided separately from institutions for the care of the latter; and that in no case homeless minors be provided with shelter in institutions housing a miscellany of adult persons of every description.

24. That the period of unemployment in the case of minors be utilized for educational purposes by the provision of suitable training, attendance at which for a certain number of hours might be made compulsory for all unemployed youths and girls up to the age of eighteen.

25. That, in order to reduce the supply of juvenile labor at times of general unemployment, school attendance beyond the age limit of legal compulsion be encouraged by the provision of scholarships.

C. INDUSTRIAL ACCIDENT

255. The Machine Process and Industrial Accident⁹

BY E. H. DOWNEY

Work accidents in the United States, according to the best attainable estimates, annually cause more than 35,000 deaths and about 2,000,000 injuries, whereof probably 500,000 produce disability lasting more than one week. To employ a telling comparison frequently made, the industrial casualties of a single year in this country alone equal the average annual casualties of the American Civil War, plus all those of the Philippine War, increased by all those of the Russo-Japanese War. As many men are killed each fortnight in the ordinary course of work as went down with the "Titanic." This single spectacular catastrophe appalled the civilized world and compelled governmental action in two hemispheres; while the ceaseless, day-by-day destruction of the industrial juggernaut excites so little attention that few states take the trouble to record the deaths and injuries.

The point especially to be emphasized in this connection is that the appalling waste of life revealed by the above cited estimates is, in great part, unavoidable. Doubtless the number of work acci-

⁹Adapted from *History of Work Accident Indemnity in Iowa*, pp. 1-5. Published by the State Historical Society of Iowa, 1912.

dents may be considerably reduced in the United States, as it has been reduced in Europe, by preventive measures. Yet when all possible precautions have been taken modern industry will continue to exact a fearful toll of life and limb. Even in the German Empire, which leads the world in accident prevention, there were reported in 1911, the last year for which statistics are available, 662,321 work accidents, whereof 9,687 terminated fatally and 142,965 caused disability for more than thirteen weeks. Scientific accident prevention in Germany has produced a lower accident rate and a much lower rate of fatal accidents than obtains in the United States, but it has left the total casualty list of industry deplorably large. Indeed, the number of work injuries in Germany, as elsewhere, is increasing, both absolutely and relatively to the numbers employed, as industrial development goes forward. The ugly fact is that work accidents, in the main, are due to causes inherent in mechanical industry on the one hand, and in the hereditary traits of human character on the other hand.

In the first place, a high degree of hazard inheres in present-day methods of production. Modern technology makes use of the most subtle and resistless forces of nature—forces whose powers of destruction when they escape control are fully commensurate with their beneficent potency when kept in command. Moreover, these forces operate not the simple hand tools of other days, but a maze of complicated machinery which the individual workman can neither comprehend nor control, but to the movements of which his own motions must closely conform in rate, range, and direction. Nor is the worker's danger confined to the task in which he is himself engaged, nor to the appliances within his vision. A multitude of separate operations are combined into one comprehensive mechanical process, the successful consummation of which requires the co-operation of thousands of operatives and of countless pieces of apparatus in such close interdependence that a hidden defect of even a minor part, or a momentary lapse of memory or of attention by a single individual may imperil the lives of hundreds. A tower man misinterprets an order, or a brittle rail gives way, and a train loaded with human freight dashes to destruction. A miner tamps his "shot" with slack and dust explosion wipes out a score of lives. A steel beam yields to a pressure that it was calculated to bear and a rising skyscraper collapses in consequence, burying a small army of workmen in the ruins.

In the second place, human nature, inherited from generations that knew not the machine, is imperfectly fitted for the strain put upon it by mechanical industry. Safely to perform their work the

operatives of a modern mill, mine, or railway should think consistently in terms of those mechanical laws to which alone present-day industrial processes are amenable. They should respond automatically to the most varied mechanical exigencies, and should be as insensible to fatigue and as unvarying in behavior as the machines they operate.

Manifestly these are qualities which normal human beings do not possess in anything like the requisite degree. The common man is neither an automaton nor an animated slide-rule. His movements fall into a natural rhythm, indeed, but the beat is both less rapid and more irregular than the rhythm of most machines—with the consequence that he fails to remove his hand before the die descends or allows himself to be struck by the recoiling lever. It requires an appreciable time for the red light or the warning gong to penetrate his consciousness, and his response is apt to be tardy or in the wrong direction. Fatigue, also, overcomes him, slowing his movements, lengthening his reaction time, and diminishing his muscular accuracy—thereby trebly enhancing his liability to accident.

The machine technology, in fact, covers so small a fraction of the life-history of mankind that its discipline has not yet produced a mechanically standardized race, even in those communities and classes that are industrially most advanced. And so there is a great number of work injuries due to the "negligence of the injured workman"—due, that is to say, to the shortcomings of human nature as measured by the standards of the mechanician. This maladjustment is aggravated by the never-ceasing extension of machine methods to new fields of industry, and the continued influx of children, women, and untrained peasants into mechanical employments. Accordingly, the proportion of accidents attributable to want of knowledge, skill, strength, or care on the part of operatives appears everywhere to be increasing.

There is, then, no prospect that the "carnage of peace" will be terminated, as the carnage of war may be, within the predictable future. An industrial community must face the patent fact that work injuries on a tremendous scale are a permanent feature of modern life. Every mechanical employment has a predictable hazard; of a thousand men who climb to dizzy heights in erecting steel structures a certain number will fall to death, and of a thousand girls who feed metal strips into stamping machines a certain number will have their fingers crushed. So regularly do such injuries occur that every machine-made commodity may be said to have a definite cost in human blood and tears—a life for so many tons of coal, a lacerated hand for so many laundered shirts.

256. Casualties in War and Industry¹⁰

How many Pennsylvanians will be returned disabled from war after a given period? How will that number of war disabled compare with the number of workers injured in the industries of Pennsylvania during a given period?

The answer to the first question can only be estimated, using as a basis the experience of countries engaged in the war over a period of years. The answer to the second question can be determined from the records of industrial accident reports submitted over a given period to the Pennsylvania Department of Labor and Industry.

The experience of Canada in the present war gives an unusual opportunity to forecast the number of disabling casualties that may be expected among Pennsylvania's soldiers. The population of Pennsylvania is approximately the same as the population of the entire Dominion of Canada, about 8,000,000. It is believed that Pennsylvania will ultimately raise an army of approximately the same size as Canada, between 400,000 and 500,000. It is therefore within the limits of possibility that the disabled soldiers, returned to Pennsylvania after a given period of warfare, will be in the same proportion as to number and types of disability as have been returned to Canada during an equal period.

The army of employees remaining in Pennsylvania may be considered as six times as great in number as the army Pennsylvania will ultimately put in the field. The casualties suffered by that army of Pennsylvania workers—estimated to average continuously 3,000,000 during the two years and a half from January 1, 1916, to July 1, 1918—amounted to 577,053, including 7,575 fatalities. The number of industrial workers injured in two and one-half years in Pennsylvania is greater than the army that either Canada or Pennsylvania is sending against Germany.

In other words, if the number—not the percentage of the total engaged—of Pennsylvanians injured in the war equals in two and one-half years the number injured in the industries of Pennsylvania during the same period, every man in an army of 500,000 will be injured once and more than 75,000 men will be twice wounded during the same period.

Canada, after four years of war, has had approximately 50,000 men returned as unfit for further military service. This number does not include men who were sick or wounded and who recuperated. A vital factor in our comparison is the number of men returned as

¹⁰Adapted from "Comparative Casualties in War and Industry," *Bulletin of the Pennsylvania Department of Labor and Industry*, V (No. 2. 1918), 121-25.

unfit because of disease. In England evidence shows that out of every one thousand cases of disablement, 547 are cases of disease and 453 are cases of wounds and injuries. If this ratio holds true for the disabled soldiers returned as unfit to Canada and to Pennsylvania, it indicates that only about one-half of the men invalided from war are suffering from wounds. Yet every man in the list of industrial accidents reported is actually wounded.

Approximately 1,200 of the 50,000 disabled soldiers returned to Canada are "amputation cases." For the same period in the industries of Pennsylvania there have been 3,798 industrial "amputation cases." After almost four years of war Canada's experience shows that less than fifty soldiers have been blinded. In the shorter period of only two years and one-half there have been 1,157 eyes lost in the industries of Pennsylvania; twenty-nine workers have been totally blinded.

257. Some Sample Accidents¹¹

An engineer at a power house fell asleep and allowed his fire to go out. Upon awakening, he secured some waste, saturated it with kerosene and lighted the fire. Despite twenty-five years' experience, he thoughtlessly failed to open the damper when he rekindled the fire. When the door was suddenly opened the flames shot outward and ignited his clothing, inflicting burns that caused his death three days later.

Recently an employee of an electric company was engaged in taking a cable off a reel and placing it on the drum of an electric hoisting engine. This operation required the man to hold the cable in one hand. When he was so engaged, his glove caught between the cable and the drum, pulling him over the latter and causing his head to strike the floor. He was injured so badly that he died the next day.

An employee of an engineering company was placing a temporary door frame in an elevator hatch. He was down on his knees placing a wooden block at the lower corner of the frame. He failed to notice that the elevator was above him. While he was in this stooping position, the operator, without giving a signal, started to lower the elevator. In its descent the repair man's head was caught between the floor and the bottom of the car and he was killed instantly.

An employee of a manufacturing establishment spilled some gasoline on his clothes while filling a can from a storage tank. While

¹¹Adapted from the *Bulletin of the Pennsylvania Department of Labor and Industry*, IV (No. 7, 1917), 12-18.

his clothes were in this condition he attempted to light a cigarette. An explosion followed, and the man was badly burned about the chest and abdomen.

Although rules prohibited the oiling of machinery while in motion, an employee in a manufacturing plant placed a ladder against the moving line shaft and attempted to oil the bearings. His blouse caught on the shafting and he was whirled around and crushed against the rafters.

An employee of a steel company went behind a scrap pan in the pouring pit to take a nap. A pan from the adjacent pit was hooked up by the crane man and transferred to the side of the other pan, and on being lowered it dropped on the man's head killing him instantly. It had been the practice of some of the men to sleep behind these pans. In this instance it was impossible for the crane man to see the man, as he was lying on the opposite side of the pan.

A laborer at an open hearth went out on the railroad track, where a draft of four cars was standing, and sat down on a rail in the shade of the end car to rest. While he was sitting there, a draft of six cars was pushed in on the siding and bumped into the four cars already there. The man was run over and instantly killed.

A man was handling freight. A splinter penetrated the sole of his shoe and entered his foot. He did not report the injury for nine days. By this time septic poisoning had resulted. Five days later he died.

Recently an employee of an electric manufacturing company was making repairs to a fan support under a ceiling. He was using the traveling crane as a base for his scaffolding, and he had placed several planks across between girders which were about six feet apart. The planks he selected were 6 inches by 2 inches, and carelessly he used one with a knot which extended half across the plank. When he stepped on the plank it broke under his weight and he fell to the floor, sustaining injuries from which he died.

Considerable grease had collected upon the large calender rolls of a paper manufacturing company. A man was cleaning them with a gasoline blow torch, as was customary. He had occasion to go underneath the machine, and he thoughtlessly set a lighted torch on the edge of the machine. It fell on him when he was underneath the gears. His clothing caught fire and he was burned so badly that he died the next day.

258. Imputation of Responsibility for Accidents¹²**a) Safety First**

Employees, before they attempt to make couplings or to uncouple, will examine and see that the cars or engines to be coupled or uncoupled, couplers, drawheads, and other appliances connected therewith, ties, rails, tracks, and roadbeds, are in good safe condition. They must exercise great care in coupling and uncoupling cars. In all cases sufficient time must be taken to avoid accident or personal injury.

b) Efficiency First

Entirely too much time is being lost, especially on local trains, due to train and enginemen not taking advantage of conditions in order to gain time doing work, switching and unloading and loading freight. Neither must you wait until train stops to get men in position. It is also of the utmost importance that enginemen be alive, prompt to take signals, and make quick moves. In this respect it is only necessary to call your attention to the old adage, which is a true one, that when train or enginemen do not make good on local trains it thoroughly demonstrates those men are detrimental to the service as well as their own personal interests, and such men, instead of being assigned to other runs, should be dispensed with. I am calling your attention to these matters with a view of invigorating energy and ambition, in order that your families who are dependent on you to make a success shall not some day point the finger of scorn at you, and that the public may not be able to say you lost your position due to lack of energy and interest in your own personal welfare, for which you can consistently place the responsibility on no one but yourself.

259. Industrial Accidents and the Theory of Negligence¹³

BY LEE K. FRANKEL AND MILES M. DAWSON

Let us consider the principles which, only a quarter century ago, determined the right of a workman to recover compensation from his employer. Those principles still apply, with some modification,

¹² The first of the two selections given here is an excerpt from an official bulletin of a railway company; the second is an excerpt from a letter of instruction to employees issued by the same company. The first suggests that there may be truth in the frequently repeated statement that "the most effective way for railroad employees to practice sabotage is to live up to the rules of the company."

¹³ Adapted from *Workingmen's Insurance in Europe*, pp. 5-7. Copyright by the Russell Sage Foundation, 1910.

in all the states of the United States, and have but recently been discarded in part by the federal government itself. The elementary theory of "the law of negligence," as it is usually called, in its relation to the liability of employers for financial loss to workmen and their families, was originally the same in all civilized countries. The development of the law of liability has not been identical in every country, but nowhere, probably, has the principle been pushed so far as in the United States. The doctrine has, however, been modified somewhat by decisions of the courts and by act of our legislatures.

The underlying principle of the law of negligence is that *the employer is liable only in case he is at fault; that is, he must have been neglectful in some respect and this negligence must have been the proximate and sole cause of the accident.* In that case it declares that he alone must bear the financial burden of compensation.

Liability of the employer for his own negligence is qualified as follows:

First, it is not enough that he was the chief cause.

If the employe himself has been negligent and if this in any degree contributed to the accident, the employer is not held. This is known as the principle of "contributory negligence." The idea is that the courts, not being able to separate results flowing from these two causes and to determine how much was due to one and how much to the other, will refuse to grant compensation if the employe's negligence contributed to the accident even though only in a slight degree.

Second, the accident must not have been a consequence of the ordinary risks of the occupation.

If it can be shown or the conclusion fairly be deduced that the employe assumed this particular risk as a condition of his contract of employment, or as the ordinary risk of his occupation of which he knew or was bound to know, the employer is not held. If the employe was aware that certain danger existed and notwithstanding continued to work, this action on his part would bar recovery. As a corollary to this, the courts have held very generally that the employe must be presumed to know what are the ordinary dangers of his occupation, and even what are the unusual dangers connected with continuing to perform the duties of that occupation, when the place where it is carried on, or the machinery or tools with which it is carried on, are defective.

This is called the principle of "assumption of risk." Some courts have gone so far as to hold that, even though the employer is required by law to keep the machinery, tools, and the place in which the work is done in a certain condition of safety, and that although by failing to do so he has rendered himself liable to a penalty, the workman,

notwithstanding, will not be able to recover if he has known of these defects and has nevertheless continued to work. The same courts have also held that the fact that he has called the defects to the attention of his employer and asked that they be remedied, will not render the employe liable if the workman, notwithstanding that the defects have not been remedied, continues to work. In fact, calling the defects to the attention of others prejudices his claim in that it is proof positive that he knows of them.

Third, the accident must have been the result of the employer's own negligence and not that of another employe or employes.

If the workman has been injured because one or more of the employes working with him were negligent, the employer will not be held. This proceeds from the idea that each workman whose negligence has caused the injury should himself be held financially responsible; and since in most cases he is in fact financially irresponsible and could not respond to a judgment, the result of the application of this rule is that the persons injured are not compensated at all. This is directly contrary to the rule which applies when the injury is to one not an employe; in that case the employer, under the general doctrine of principal and agent, is held liable.

The principle stated above is known in practice as the "fellow-servant" rule. It has been carried so far by some courts that it is difficult to see how a corporation employer could be held responsible at all, no matter what officer or other employe was negligent. Even an officer is an agent or employe, and therefore a fellow-servant with all other employes, although the courts have usually not so held. Except in the case of executive officers, however, the rule has been applied so sweepingly that, for instance, a scrubwoman washing out railway coaches might be held to be a fellow-servant with the superintendent of the road, and, therefore, without a good claim against the company for negligence attributable to him.

The "fellow-servant" rule grew up in the courts out of the simplicity of the common law, which in its origin did not know employers and employes in the modern industrial or commercial sense, but only "masters" and "servants." The law did not hold the master liable, even on the ground of negligence. It certainly would have refused to require him to compensate one servant for the negligence of another. This principle manifestly has little or no suitability for the uses of a commercial and highly organized industrial community, in which much the larger part of the services performed by employes is not for the direct enjoyment of the employer but is part of the aggregate cost of products or services sold by him to the public at a price to cover all the costs. In recent years the

"fellow-servant" rule has been much relaxed, first by the courts and later by legislatures. In many states an employe who supervises the work and controls the workman is held to be a "vice-principal" and to represent the employer, so that his negligence is treated as if it were the negligence of the employer.

Under the rules of law just outlined, a very large proportion of the accidents which occur in the industries of the country go uncompensated. In some cases, on the other hand, the employer is held for substantial amounts, and occasionally very large verdicts are recovered, but only a small percentage of the cases is the compensation adequate.

260. The Incidence of Work Accidents¹⁴

BY E. H. DOWNEY

Work accidents, in the nature of the case, are sustained principally by wage-earners, who are substantially propertyless as a matter of course, who have no savings to speak of, and whose incomes, for the most part, are too small to leave any adequate margin for accident insurance. The almost total absence of property or savings among wageworkers is abundantly demonstrated by tax returns and the records of savings banks and life insurance companies. But wages statistics are yet more conclusive to the same effect. A recent investigator of this subject, Professor Scott Nearing of the University of Pennsylvania, concludes that one-half of the adult male wageworkers of the United States receive less than \$500 a year; that three-fourths of them get less than \$600, and that only 10 per cent are in receipt of more than \$800 annually. As to women wageworkers, three-fifths are receiving less than \$325 yearly; nine-tenths are paid less than \$500, and only one in twenty is paid more than \$600. These estimates are well substantiated by the findings of other investigators. More than half of the workmen injured in the Pittsburgh district in 1907 were earning less than \$15 weekly (making no allowance for unemployment) at the time of injury. Of the men sustaining industrial injuries in Minnesota in 1909-10, 47 per cent were receiving less than \$12.50 and 78 per cent were receiving less than \$15 weekly.

It needs no argument to show that families in receipt of incomes such as these can have neither property, savings accounts nor insurance. And this conclusion, finally, is corroborated by investiga-

¹⁴Adapted from *History of Work Accident Indemnity in Iowa*, pp. 6-8. Published by the State Historical Society of Iowa, 1912.

tions into the insurance actually carried by wageworkers. Of 132 married men killed in Pittsburgh, only 6 had insurance in substantial amount and only 25 out of 214 left savings, insurance, and trade-union and fraternal benefits to the amount of \$500 each. In New York state 175 workingmen who suffered fatal or permanently disabling accidents had insurance in the aggregate sum of \$18,635. Nor are these extreme instances selected to make out a case. The average value of 13,488,124 "industrial insurance" policies in force in 1902 was only \$135. The unvarnished fact is that the wage-earner neither does, nor can, provide for the contingencies of sickness, accident, and unemployment.

To the wageworker, then, even when no one but himself is dependent on his earnings, the loss of a few weeks' wages means serious privation, and permanent incapacity means beggary. But quite half the victims of work accidents are married men, and a majority of even the unmarried contribute to the support of others. For example, of 467 fatal accidents in Allegheny County, Pennsylvania, 258 were sustained by married men and 129 others by regular contributors to the support of relatives; whereas only 80 of the 467 dead were wholly without dependents. Of 285 fatal accidents investigated in Cuyahoga County, Ohio, 176 were suffered by heads of families. Of 1,476 men killed on the job in New York state, 679 were the sole supporters of 1,775 dependents, 167 were the principal supporters of 520 dependents and 252 contributed to the support of 668 relatives—leaving but 378, or 35 per cent of the whole number of deceased, entirely without economic responsibilities. In Wisconsin 43 per cent of the injured workmen whose conjugal conditions could be learned by the State Bureau of Labor were married.

A serious work accident, therefore, commonly deprives a necessitous family of its sole, or chief, or at least a very important, source of income. The inevitable result, in the absence of systematic accident indemnity, is poverty, and the long train of social evils that spring from poverty. It is not only that victims of unindemnified work accidents suffer prolonged incapacity and often needless death from want of means to obtain proper care, not only that families are compelled to reduce a standard of living already low, and that women and children are forced into employments unsuited to their age and sex, with resultant physical and moral deterioration; but it is that the ever-present fear of undeserved want goes far to impair that spirit of hopefulness and enterprise upon which industrial efficiency so largely depends.

261. The Necessity of Employer's Liability¹⁵

BY ADNA F. WEBER

It must be clear, upon reflection, that the conditions under which modern industry is carried on preclude the possibility of explaining every accident by somebody's negligence. This much was dimly understood when various countries took the first step of shifting the *onus probandi* from employee to employer. If, now, the employees are not to blame for the innumerable injuries to which they are subject, why should they be made to bear the financial burden of those injuries? Why should not that burden be distributed over the community instead of being concentrated upon a certain number of families who, in any event, will have to bear the physical and mental suffering involved in the death, crippling, or maiming of men? The risk of fire is undeniably greater in a gunpowder mill than in a brewery, but the owner of the mill does not bear the burden by contenting himself with lower profits than the brewer's; he simply pays for the greater risk by higher rates of fire insurance and passes the cost on to the consuming public in a higher price for his product. If the additional expense imposed upon a gunpowder manufacturer through the more frequent losses by fire can be thus recouped from consumers, why should not the expense of indemnifying his workmen for accidents be likewise made a part of the cost of production, and thereby be transferred to the community at large? Only one thing will prevent such shifting of the burden, and that is the ability of competitors to put their goods on the market without incurring like charges. Hence the law must require all competitors in a given trade to make the same compensation for the same injuries. This is what Europe has done; by compelling employers to compensate injured employees according to a fixed scale, it has taxed the community, through higher prices of goods, for the support of its injured members.

Many minds bred in the philosophy of individualism will undoubtedly see in such legislation nothing but injustice to the employer. In reality such legislation is in strict conformance with the innermost spirit of English and American common law. It recognizes the existence of undeserved distress among workingmen and undertakes to alleviate their suffering by giving them a claim upon some person who is pecuniarily responsible. And that is precisely the principle embodied in the time-honored common-law rule that the principal is liable for the acts of his agent.

¹⁵Adapted from an article published in the *Political Science Quarterly*, XVII, 279-81. Copyright, 1902.

The course of reasoning thus followed to justify the principal-and-agent theory of liability also justified the workmen's compensation acts adopted by all the leading countries of Europe, which require the employer to assume all the risks of the employment which he calls into being. But while the employer makes the primary payment, just as he pays for the wear and tear of his machinery or the loss of his plant by fire, the consumers ultimately pay the cost. The alternative to such a general distribution of the financial burdens of industrial through the public charities.

accidents is the present method, by which the entire burden is put primarily upon the poorest classes, and when it crushes them, to the damage of the community, is at last tardily assumed by the latter

D. SICKNESS AND HEALTH

262. The Nation's Physical Fitness¹⁶

In an instructive chapter the second report of the Provost Marshal General summarizes the data relating to the physical qualifications of the men examined for military service under the selective draft law during the period from December 15, 1917, to September 11, 1918. Inasmuch as the data pertain to 3,208,446 men physically examined, it is evident that they furnish an unparalleled source of information regarding the physical condition of the nation's manhood.

It is interesting to note that out of these 3,208,446 registrants physically examined by the local boards, 70.41 per cent were found fully qualified for all military duty. These men were re-examined by the camp surgeons for induction into military service, and an average of 8.1 per cent of them were rejected. These physical examinations and re-examinations therefore revealed the fact that only 64.71 per cent of the registrants in the age-group twenty-one to thirty-one were fully qualified for all military duty.

It is further noted that there were rejected as having defects such as to render them unfit for military duty 21.68 per cent of registrants from urban regions; and 16.89 per cent of registrants from rural regions. Likewise 17.32 per cent of negro registrants were rejected and 16.08 per cent of whites. From alien communities 17.14 per cent of registrants were rejected, and from native communities 13.64 per cent of registrants. This seems to indicate that rural registrants were in better physical condition than the urban, the white than the colored, and the native than the foreign-born.

¹⁶Adapted from an abstract of the second report of the Provost Marshal General, published in *Public Health Reports*, XXXIV (1919), 624, 633-34.

Undoubtedly the physical examinations of so many men in this age group taken evenly from all sections of the country constitute a fair index of the health of the general population. This is especially true since the local board examinations were checked up by the examinations of the camp surgeons. In considering these findings and before applying the ratios to the general population the age of the registrants examined must not be forgotten. Physical unfitness undoubtedly increases with age. The report gives an important clue to the increasing ratio of physical unfitness in comparing the men in the age-group twenty-one with those in the age-group twenty-one to thirty-one. Those in the younger age-group gave 76.89 per cent physically fit for all military duty as compared with 69.17 per cent given by the older age-group. Only 9.93 per cent of the men in the younger group were found wholly unfit as compared with 17.47 per cent of the older age-group.

Making due allowance for error and differences due to sex, age, and sections of the country, an application of these findings to the country as a whole leads to the conclusion that the health of the nation is far below what it ought to be. This is especially true when one considers that only 65 per cent of our young men are found physically fit for military service and over 21 per cent are disqualified for all military duties, even of the limited class.

These conditions are not confined to any one section of the country. There is no great difference in the ratios for the North, South, East, or West, urban or rural, native or foreign-born. In fact some of our previously formed conclusions as to the healthfulness of the several sections of the United States have to be somewhat revised. Thus we face the striking fact that when the rejections made by the camp surgeons are included less than 52 per cent of the registrants in the state of Washington are in the condition of health required of all accepted for all military duties as compared with over 73 per cent in this condition for the state of Arkansas, and this despite the fact that Washington enjoys the lowest death-rate of any state in the union. Again, taking some of the findings from New England usually considered one of the most healthful sections of the country, we observe that in Massachusetts less than 53 per cent of the residents are up to the required standard in health, in Vermont less than 52 per cent, and in Maine less than 62 per cent, whereas the southern section of the United States shows that Oklahoma furnished over 77 per cent fit for all military duties, Arkansas over 73 per cent, and Alabama over 66 per cent.

The figures from all sections of the country are sufficiently appalling to show that it is of the greatest importance for the whole

nation to realize that it is high time to search out the causes of the physical unfitness and find the proper remedies. It is the supreme duty of all agencies, national, state, and local, to work together to these ends.

263. The Industrial Cost of Sickness¹⁷

BY JOSEPH P. CHAMBERLAIN

It is important that we should consider the many shreds of information which may be pieced together to show the extent and need of sickness insurance in the United States. No figures exist from which we may estimate accurately the probable amount of loss caused by sickness in this country, but a committee of experts acting for the American Association for Labor Legislation has estimated that annually there are 248,750,000 days of sickness among workmen in the United States, costing \$792,892,860. The United States Bureau of Labor reports that every workman in the steel industry has the expectation of nine days lost by sickness in a year as against four days lost by accident, a significant proportion when we realize that it does not cover the cases of men forced by sickness to quit entirely, and that only the sick leave their work.

The burden is not borne entirely by the working people. Sums which would undoubtedly amount to considerable in the aggregate are paid by employers as wages to sick employees and to the different insurance funds in which both employer and employee are interested. The extent of the contribution of private charity may be guessed by the statement of the New York Association for Improving the Condition of the Poor, that 40 per cent of the persons helped by it in 1912 became dependent on account of sickness, a proportion which, according to most authorities, is rather higher than the average. The contribution of the state and the public, through the support of hospitals and dispensaries, is a larger figure. Studies of social conditions in New York City show that the dispensary and the hospital are the principal resources in sickness of the poorest paid classes of workmen.

These sums, large though they must be in the aggregate, leave the huge bulk of the cost of sickness on the shoulders of the workmen themselves, and to lessen in individual cases its crushing weight, often increased by the cost of burial, a widely extended system of sickness and burial insurance has grown up. There are a variety of carriers of this insurance: (1) Industrial and assessment, sickness and burial insurance companies and associations; (2) estab-

¹⁷Adapted from "The Practicability of Compulsory Sickness Insurance in America," *American Labor Legislation Review*, IV (1914), 52-53.

lishment funds; (3) the lodges of large fraternal orders and small local societies frequently affiliated with a church in foreign communities; (4) labor-union locals, and, to some extent, national organizations. The usual form of benefit is a cash payment in the event of death and a weekly payment to a person who is unable to earn from sickness or accident.

264. Why Sickness Insurance Should Be Compulsory¹⁸

BY I. M. RUBINOW

The lesson of history is strongly in favor of the compulsory principle in connection with sickness insurance. The considerations which have led to this conclusion are as follows:

1. The demonstrated inability to bring the neediest strata of the working class into the system by any measure short of compulsion. Under all voluntary systems the proportion of the insured in a definite labor group is in inverse ratio to its economic status. Ability and willingness to meet the cost of insurance presuppose the existence of some surplus in the budget and a sufficient cultural status for an appreciation of the advantages of the insurance principle. Both are least present in the lower strata of the wage-working class where disease is most frequent and the economic need caused by disease greatest. Experience has proved that only by compulsion can these be reached.

2. Shifting the burden of insurance. A study of the social causes of disease establishes at least a partial responsibility for illness on the part of industry and society. Justice would require that industry and society should share in the cost of sickness insurance. But besides this argument of abstract equity, there is the economic fact that for a large proportion of the wageworkers the earnings are such as to make the cost of insurance too heavy a burden. Both equity and necessity require that at least a part of the burden be shared by other classes in society. The subsidized voluntary system recognizes this, and endeavors to relieve the burden by a state or local government subsidy. But only through a compulsory system does it become possible to shift part of the cost upon the employer and upon industry at large. The essential feature of compulsion is exercised upon the employer who is forced to meet part of the cost.

3. Standardization of the insurance system. Not only the quantitative, but also the qualitative development of the insurance system

¹⁸Adapted from "Standards of Sickness Insurance," *Journal of Political Economy*, XXIII (1915), 226-27.

must be considered. It is important that not only all strata of workmen be insured, but that the services rendered by the insurance institutions be effective and capable of meeting the problems which call for sickness insurance. Under a subsidized system an effort is usually made to accomplish this result by exacting certain conditions before the result is granted. At best the requirements of a voluntary system cannot be far above the actual practice of the organizations existing at the time, or otherwise it is in danger of failing entirely. It is necessary, as in Germany and Great Britain, to enforce definite minimum requirements, which are adjudged practical and necessary, while the very contribution from industry makes a higher minimum possible.

265. The British National Insurance Bill¹⁸

BY WARREN S. THOMPSON

The British National Insurance Bill is England's most momentous piece of social legislation, if indeed it is not the world's. It is largely the result of an extended visit which Mr. Lloyd-George made to Germany in 1908. He left Germany fully convinced that national insurance was the proper method of dealing with the conditions which the reports on the Poor Law showed to stand in dire need of immediate alleviation. The significant part of the bill is that which deals with health insurance. Only that part will be discussed here.

Under the provisions of the part relating to health all wage-earners who receive less than £160 annually, are compelled to insure their health. Those exempted are for the most part in Government employ, and already entitled to benefits, and those who are not dependent upon their work as their chief means of livelihood. The best actuaries estimate that about 9,200,000 men and 3,800,000 women will become members of "approved societies" when the law goes into effect. It will be six months before any benefits are granted and two years before anyone will receive "disablement" benefits.

The contributions are payable weekly. They are divided between the employer, the workman, and Parliament, as follows: for the men, the employer pays 3, the workman 4, and Parliament 2, out of a total of 9 pence; for the women, the employer 3, the working-woman 3, and Parliament 2, out of a total of 8 pence. Special provision is made in the case of those who receive very low wages for the employer and Parliament to pay either the entire contribution or all of it but 1 penny. The employer is held responsible for the payment, both of his own contribution and that of the employee. The payment

¹⁸ 1914.

is made by the use of stamps and the employer is authorized to deduct the employee's contribution from his weekly wage.

There are five benefits to be given: (1) Medical benefit. This includes medical attention and the necessary drugs when one is ill, and may be extended to the dependents of the injured person when the authorities have the means and deem it advisable. (2) Sanatorium benefit. This entitles a member who has tuberculosis or a similar disease to be treated in a sanatorium when it is needed. This benefit also may be extended to the dependents of the injured person. A definite amount, 1 shilling 4 pence, is available for each member annually for the payment of this benefit. This amount must not be exceeded unless the local authorities and the Treasury vote extra aid. (3) Sickness benefit. This is a cash payment made weekly to the insured person or his dependents and continues for 26 weeks. In the case of men it is 10 shillings a week for the first 13 weeks and 5 shillings for the second 13 weeks; in the case of women 7 shillings 6 pence for the first 13 weeks and 5 shillings for the second 13 weeks. If the financial condition of the society permits, the benefits for the second 13 weeks may be increased. (4) Disability benefit. This is a weekly payment of 5 shillings to a member who is temporarily or permanently disabled as the result of sickness or accident not in any way connected with his work. It lasts "so long as he is rendered unfit by the disease or disablement." (5) Maternity benefit. This is a lump sum of 30 shillings paid upon the birth of a child, either when the mother herself is insured or when she is the wife of an insured man. In addition to these, other benefits may be granted, if the financial condition of the society permits it. The benefits are decreased when the person is in arrears with his contribution, when he is under age and not married, and when he is past 50 at the time of becoming insured.

If a person is not so employed as to become a regular member, he may join a society as a voluntary contributor. The rate at which he pays is determined by his age at entrance. Adequate provision is made to allow the transfer of a member from the voluntary to the employed rate and vice versa. Since there is no contribution from the employer in the case of a voluntary member, this amount must be paid by the member. The contribution from Parliament is the same as in the case of the regular member, and the benefits he receives are the same.

A deposit contributor is one who cannot obtain admission to an approved society either as an employed or a voluntary contributor. He deposits his savings in the postoffice in a manner similar to our Postal Savings Bank system. From his deposit, after it is subsidized

by Parliament, the proper amount is deducted to entitle him to medical and sanatorium benefits. For the other benefits he can merely withdraw the remainder of his subsidized deposit.

There are two separate organizations for the administration of benefits. A local health committee is established for each county and county borough. This committee in conjunction with the local authorities already existing administers the medical and sanatorium benefits. The other benefits are administered by approved societies. The reason for this division of labor is that friendly societies, having millions of members, already give benefits of various sorts. It is intended not to interfere with the other activities of these societies, but to have them establish separate branches to administer the remaining health insurance benefits. Any society which does this may become an approved society, provided it is not carried on for profit and is subject to the control of its members. The approval rests with the insurance commissioners.

Many details of the scheme are fully set forth in the bill, but many others are left to the insurance commissioners. Their rules and regulations are, of course, subject to the approval of Parliament. Strange as this delegation of legislative power seems, there is little doubt that it will contribute much to the initial success of the scheme. The commission will be able to adapt many of its regulations to exigencies as they arise and thus correct at once many of the defects which are bound to appear upon the launching of this mighty scheme.

266. Health Insurance for the United States²⁰

BY B. S. WARREN AND EDGAR SYDENSTRICKER

The case for a health insurance system for the United States or for the several states and the general outlines of an effective system can be indicated in the following summary statement:

1. The fact that health insurance has been so generally adopted in European countries as a solution of the problem of the wage-earner's health suggests its serious consideration in this country as a measure for the relief and prevention of sickness.

2. At present each of the 30,000,000 wage-earners in the United States loses about nine days each year on account of sickness. Estimating the loss in wages at \$2 per day and the cost of medical attention at \$1 per day, the total loss to the wage-earners of the nation is approximately three-quarters of a billion dollars annually.

3. In addition to conditions which affect the health of the population as a whole, some of the more important economic factors which

²⁰Adapted from *Health Insurance: Its Relation to the Public Health*, pp. 66-68 (*Public Health Bulletin* No. 76, 1916).

increase the health hazard of the wage-working population are: (a) occupational hazards; (b) irregularity of employment; (c) unhealthful conditions of living (d) employment of women under modern conditions of work, particularly of married women; and (e) economic disadvantages at which a large proportion of wage-workers and their families are placed as the result of low wages and insufficient annual income.

4. Underlying all the economic factors is the fact of poverty and the partnership of poverty and disease.

5. Three groups—employers, the public, and employees—are responsible for conditions causing sickness among wageworkers and their families.

6. With few exceptions, the responsibility of employers for the health of employees is limited to places of employment and working conditions.

7. The public is responsible for community conditions or conditions common to all classes of citizens.

8. The greatest share of responsibility rests upon the individual unable to meet this responsibility, especially the unskilled, low-paid wage-earner. Under present conditions a large proportion are workers.

9. The inability of the wageworker to meet the cost of sickness places a serious handicap upon the medical profession in its efforts for the relief and prevention of disease.

10. There is an increasing need for a more effective method of dealing with the problem of the wage-earner's health—one which will place the burden of responsibility where it belongs and stimulate the co-operation of all concerned in its solution.

11. Health insurance is the most feasible method because (a) it distributes the cost of sickness among those responsible for conditions causing sickness and lightens the burden upon the individual; (b) it gives a financial incentive for the prevention of sickness to those who are responsible for the conditions causing sickness.

12. Health insurance in its most highly developed form (a) provides for adequate cash and medical benefits to all wage-earners in time of sickness; (b) distributes the cost among employers, the public, and wage-earners; (c) becomes an effective health measure by stimulating the co-operative effort of the three responsible groups and by linking their efforts with those of governmental health agencies; (d) correlates all the forces in the prevention of disease; and (e) affords a better basis for the co-operation of the medical profession.

13. Under an efficient health insurance system a contribution of approximately 50 cents per week per insured person (25 cents by employees, 20 cents by employers, and 5 cents by the government) should enable the insured persons to receive (a) \$7 per week when disabled by sickness or accident for as much as twenty-six weeks in a year; (b) adequate medical and surgical care during disability; (c) medical and surgical care of wife of insured person during confinement; (d) a death benefit of \$100.

14. A governmental system of health insurance can be adapted to American conditions, and when adapted will prove to be a health measure of extraordinary value.

The fact that under such a system the employee has such a large measure of ownership and control will remove all elements of paternalism. He will regard the benefits as rights, not charities. Adequate medical relief will be placed within the reach of even the lowest paid worker and provide for him and his family during sickness. It will give to those responsible for conditions causing sickness a financial incentive to prevent disease.

Its administration must be closely co-ordinated with public-health agencies if it is to attain the greatest degree of success as a preventive measure.

E. THE STANDARD OF LIVING

267. The Nature of the Standard of Living²¹

BY FRANK HATCH STREIGHTOFF

"How can these people endure it?" asked the fair boarder, closing her novel and languidly sinking into the depths of her hammock. "Mr. Farmer drudges from four A. M. till dark, and never a visible result! He's never been to the theater! Why, he hasn't even read *The Balance of Power*. I don't call that living—it may be existing." Such words are heard every day in rural summer resorts. Corresponding sentiments are entertained by many a farmer who cannot see how his guests are held by the chaotic buzz of the metropolis. The people of one city block "couldn't be hired" to move to certain other squares; yet the respectable inhabitants of these latter districts "wouldn't be buried from Z Street." It is really amusing to notice how the words "live" and "exist" are contrasted, but the distinction is merely the expression of the fact that "consciously or unconsciously every man whose means, or wealth, or resources are more limited than this wants—and this is practically the case with

²¹Adapted from *The Standard of Living among the Industrial People of America*, pp. 1-4. Copyright by Hart, Schaffner & Marx, 1911.

human beings generally—has a scale of wants in his mind when he arranges these means. On the basis of this scale he satisfies what are his most urgent wants and leaves the less urgent ones unsatisfied.”²² In other words, every man has his own “standard of living.”

Satisfactorily to define the standard of living is extremely difficult. Bullock writes, “Each class of people in any society is accustomed to enjoy a greater or less amount of the comforts or luxuries of life. The amount of comforts or luxuries customarily enjoyed forms the standard of living of that class.”²³ That is to say, the standard of living, as the expression is usually understood, consists simply of what men do actually enjoy. On the other hand there are always felt but unsated wants that prompt men to struggle; those reasonable unfilled desires are the motive powers to progress. Few indeed are the women who do not confidently whisper to their friends, “We cannot do that now, for we are rather poor this year.” There is an “ideal” standard of living which is always in advance of achieved satisfaction.

The definition given here is valuable in suggesting two important truths. First, it properly emphasizes comforts and luxuries. In everyday affairs effort is often directed more to securing superfluities than in providing necessities. In the second place, the extent and content of the unsated wants in a man’s ideal standard is largely determined by actual satisfactions.

Each individual has his own more or less rational concept of what is essential to the maintenance of his own social position; and he knows exactly what this position is, whether he be the bank clerk who delights in race horses, or the man who shares the same desk and plays on the Sunday-school ball team. The one demands “smart” raiment and amusement at highly nervous tension, the other wants respectable, serviceable clothes and healthy sport. They live in different worlds, they have individual criteria: so each man has his own standard of living. But it will be noted that bank clerks as a class have some wants in contrast to the mechanics, for instance. The clerks must enter their offices clean-shaven, the mechanics like a good scrub after work; the former wear kid gloves and fresh linen, the latter are more comfortable in woolen gloves and flannel shirts. These contrasts and comparisons can be extended until the standard of each group can be determined with considerable precision. Thus the class standard of living may be compared to a composite photograph; certain features are emphasized, while others

²²Smart, *Introduction to the Theory of Value*, p. 22.

²³*Introduction to the Study of Economics*, p. 126.

are faint or blurred according to the proportion of the individuals possessing the character. On the other hand, development of the individual is so largely influenced by his environment that his notions are, in the main, those of his class.

But class is not the only factor in the development of the individual's ideal standard of living. Aside from its large determining influence in the matter of class membership, income has an important part to play; purchasing power limits the quantity and quality of obtainable satisfactions. The higher the individual climbs on the ladder of success, the wider is his view; the more he sees, the more he seeks.

Another determinant of the standard of living is the progress of civilization. The modern carpenter has far more comfort than Richard II dreamed of, simply because progress has put new things within his reach, but the carpenter knows that there are many, many things which he cannot have. Thus there is constant, though irregular rise of the standard of living as civilization becomes more complex.

268. The War and the Standard of Living²⁴

BY W. F. OGBURN

The facts of the increased cost of living, upon which wage increases during the war were based, were determined from extensive surveys made by various agencies, such as United States Bureau of Labor Statistics, the National War Labor Board, the National Industrial Conference Board, the Shipbuilding Labor Adjustment Board, the Railroad Wage Commission, the University of Washington, and others. Of these studies by far the most important are those by the Bureau of Labor Statistics. From all these studies we know fairly certainly that the cost of living based upon all the items of the family budget, including food, rent, fuel and light, clothing and sundries, has increased for the country as a whole about 55 per cent from the pre-war period, as measured by the year 1914, to June, 1918. We also know that the increase has been fairly uniform over the country as a whole, the greatest variation being in rent. Up to August, 1918, the increase had been about 65 per cent, this figure being the average increase over 1914, in fifteen shipbuilding centers, as measured by the United States Bureau of Labor Statistics. At the present time a fair estimate of the increase in the cost of living would probably be 70 per cent. This figure I think can be interpreted

²⁴Adapted from "Standard of Living as a Basis of Wage Adjustment," *Proceedings of the Academy of Political Science*, VIII, 102-4, 107-8. Copyright, 1919.

as meaning that unless wages have increased over this period 70 per cent, there has been a fall in the standard of living.

We do not have available so far as I know the figures to show whether wages have increased 70 per cent over 1914 or not. The general economic theory of wages and prices is that wages do not increase as rapidly as prices, and that during the period of rising prices real wages are lowered. The conditions upon which such a general economic theory is based have been modified during the present war by several forces all tending to raise wages more than usually occurs during a period of rising prices. These forces have been the shortage of men, due to the cutting-off of immigration, the drafting of men into the military forces, the demand of stimulated industry, the degree of social control of wages by the government, and the extension of credit.

What, of course, is true, is that in some industries wages have risen more than the cost of living has risen and in others they have not, while in some occupations wages have just about kept pace with prices. Thus in the steel and iron industries wages have increased more than the cost of living. The National War Labor Board has in a number of its decisions increased wages more than the cost of living has increased. The awards of the National War Labor Board in the street-car cases and a number of the decisions of the Shipbuilding Labor Adjustment Commission affecting trades engaged in shipbuilding have placed wage rates at very nearly the increase in the cost of living. In the building trades and in the printing trades wages have not increased as much as the cost of living.

The only figures I have secured on increases in real wages are the following: I have been able to get the increases in union wage rates since 1914 up to May 15, 1918, in nineteen trades in about twelve cities. Expressing these rates in terms of their purchasing power and calling the result real wage rates, then the bricklayers' real wage rates have fallen 21 per cent, carpenters' real wage rates have fallen 18 per cent, cement finishers' have fallen 20 per cent, granite cutters' have fallen 18 per cent, hod carriers' have fallen 9 per cent, painters' have fallen 14 per cent, plasterers' have fallen 25 per cent, plasterer laborers' have fallen 20 per cent. The blacksmiths' wage rates have risen 5 per cent, the boilermakers' have fallen 5 per cent, the machinists' have risen 10 per cent, the iron molders' 5 per cent. The real wages of plumbers and gas fitters have fallen 20 per cent, of stone cutters 18 per cent, of structural iron workers 14 per cent. Compositors' real wage rates have fallen 25 per cent, electrotypers' and stenographers' have fallen 27 per cent. These changes are based upon union wage rates and not on earnings.

I have been able to get figures on the increase in earnings in six important industries. The earnings have been found by dividing the total payroll by the number of wage-earners on the pay-roll for the week prior to December 31, 1914, and to October 1, 1918. Expressing these earnings in terms of their purchasing power and calling the result real wages, the real wages in the boot and shoe industry have increased 23.5 per cent, in the cotton finishing industry they have increased 6 per cent, in cotton manufacturing they have increased 13 per cent, in the manufacturing of hosiery and underwear the increase has been 11 per cent, in the silk industry the increase has been 5 per cent, in woolen manufacturing they have increased 9 per cent, and in the iron and steel industry real wages have increased 45 per cent.

For common labor I found that in the government employment offices of 130 cities the last common labor placed prior to August 1, 1918, averaged 36.6 cents per hour. If in December, 1914, such common labor was receiving 23 cents per hour, then real wages for common labor have risen, and if common wages were placed at more than 23 cents per hour then real wages for common labor have fallen.

The foregoing figures do not of course show whether real wages as a whole have risen or fallen, but they furnish some indication of what has happened to a large percentage of American workers.

A national policy in regard to wages should determine and declare minimum standards of living below which families ought not to be permitted to fall, and wages should be kept at such a level as to permit such a standard of living. This is an issue now discussed in British social politics under the term "the national minimum." We in the United States shall in the near future probably be setting minimum living wages for families as well as for women, by one agency or another. The question of proper standards of living has been the subject of some research by the cost-of-living department of the National War Labor Board. This department has drawn up for the consideration of the board two levels, one of which is called the minimum-comfort budget and the other the minimum-of-subsistence budget. After considerable investigation a minimum-comfort budget was drawn in detail for June, 1918, for a man, wife, and three children living in a large eastern city. The income necessary to live according to this plane of living was at that time \$1,760 a year.

The minimum-comfort standard has been used relatively little in setting wages, chiefly during the past year. On the other hand there has been a great deal of research upon the question of the minimum of subsistence. Thus in 1907 Dr. Chapin estimated that prob-

ably an income between \$800 and \$900 a year would furnish a family of five with the bare physical necessities. In 1914, the New York Factory Investigating Commission set such a budget for a family living in New York City at \$876. Today we are forced to think in terms of a price level much higher and we have not yet become accustomed to the new price terms. So it is altogether a proper question, to ask what would these two authoritative minimum-of-subsistence budgets cost at the present level of prices. In June, 1918, these two budgets were brought up to date by translating the prices of the various budget items of the pre-war period into the new price level as measured by the percentages of increase of the various items. By this method Dr. Chapin's budget would have cost \$1,390 and the budget of the New York Factory Investigating Commission \$1,360. Independently at that time also a minimum-of-subsistence budget was drawn up from data from 600 family budgets collected by the United States Bureau of Labor Statistics, which set the minimum of subsistence budget at \$1,380. Still another method of estimating the minimum wage was also used. It was found in New York in June, 1918, that the dietaries which yielded enough calories and grams of protein and which were actually in use cost approximately \$615 for a family of five counted as 3.4 equivalent adult males. As we know that at the plane of bare subsistence food costs about 44 per cent of the total budget, it is possible to estimate the total budget. According to this approximation the minimum living wage would be \$1,390.

It seems fairly evident then that in New York in June, 1918, the minimum living wage was between \$1,350 and \$1,400. From June to December the cost of living has increased probably 10 per cent. This would mean that at the present time the minimum living wage necessary for a family of five in New York City is about \$1,500. What it should be in other parts of the country we do not know.

F. THE MINIMUM WAGE

269. The Promise of a Minimum Wage²⁵

BY A. N. HOLCOMBE

The immediate direct effect of the establishment of a minimum standard-of-living wage would be to put an end to the employment of normal adult workers at lower rates. Not every wage-worker who has been employed at lower rates would necessarily be deprived of employment, nor would the wage of every such

²⁵Adapted from an article in the *American Economic Review*, II, 33-37. Copyright, 1912.

wage-earner necessarily be increased in the standard minimum rate. Some employes would receive the increase, and some would lose their employment. The actual effect would depend partly upon the efficiency of the wage-earners concerned, and partly upon the character of the demand for their services. In industries like department stores and steam laundries, which serve local markets and are free from outside competition, probably the increase of wages could be paid to all employes below the minimum without so increasing the cost of production as to produce a material decline in the demand. But in industries serving a wider market and subject to outside competition, such as cotton mills and shoe factories, the establishment of a legal minimum wage might reduce employment rather than increase wages. The outcome would depend largely upon the extent of the necessary increase and the rapidity with which it should be put in force. Some sweated industries might be altogether capable of maintaining themselves. But such as these the country would be better without.

The greatest difficulty arises in the cases where work-people of distinctly different standards of living come into competition with one another. Unless the groups are of equal efficiency, the attempt to establish a single standard for all might result in securing the industry to the most efficient group and excluding the others from all employment therein. To attempt to establish an American standard-of-living wage for alien races of distinctly lower standards and lower efficiency would probably result in the exclusion of many aliens from employment in the country. It would also result in the exclusion of most of the negroes from the occupations in which the wage should be adjusted to the efficiency of the native whites. A legal minimum wage would probably be of advantage in promoting a better distribution of such immigrants among our various industries.

The indirect economic effects of the establishment of a minimum standard-of-living wage may be mentioned summarily.

First, the establishment by legislation of such a wage would make available to the poorest and most helpless of the laboring population a share in the advantages obtained by the better-to-do and stronger through voluntary association. An advantage would be the greater security for the protection of the interests of the public against the abuse of irresponsible power in the interests of special classes.

Secondly, the line would be more sharply drawn between the unemployable and the merely unemployed. It would also tend to restrict the influx of the unemployable from abroad, thus at once checking the increase of inferior labor and raising the average efficiency of the domestic supply.

Thirdly, there would result a restriction of the field of competition between workpeople. The wage-earner whose chief recommendation is his willingness to work for a pittance would lose the advantage of his submissiveness, and skill and strength would become of greater importance in obtaining employment.

Fourthly, there would result a restriction of the field of competition between employers. The employer whose chief stock in trade is his shrewdness in driving hard bargains would lose his advantage. The peculiar qualities of the best type of business men would be of greater importance in the achievement of success.

270. The Case for Wage Boards²⁶

BY CONSTANCE SMITH

Many of the objections ordinarily advanced against wages boards, or, indeed, against any proposal to regulate wages, are little more than a restatement of the arguments employed to defeat the passing of the earlier factory acts. They rely for support on the principle, more or less disguised, of *laissez faire*. But there are some, more strictly addressed to the practical proposal now before the country, to which it seems desirable to give such brief consideration as space permits.

First, there is the fear frequently expressed, that wages boards would increase unemployment, by pushing out of the labor market the less competent worker, who is unfit to earn even the minimum rate, and by giving the coup de grâce to weak and tottering industries. The existing wages boards legislation of Victoria, makes special provision for the case of the old and slow worker. But granted that there are individuals of this class who will be unable, under the new conditions, to find employment, even at special rates, there still remains the question whether it is not wiser, on purely economic grounds, to face boldly the necessity of maintaining for a while a certain number of persons physically or mentally incapable of fully maintaining themselves, rather than of condemning to "half employment" an infinitely greater number of people who, given a fair chance, are perfectly able to earn their own living.

But sound economists who have carefully studied the subject do not hold that under a wages board system we should have a "net" reduction of employment. Since the first result of the establishment of such a system will be an increased wages bill, involving the transference of a fresh portion of wealth to the pockets of

²⁶Adapted from *The Case for Wages Boards*, pp. 75-86. Published by the National Anti-Sweating League, London, 1911.

certain classes of workers, there must at once follow an increased purchasing power on the part of those workers and a raising of the general standard of consumption in the community. Workers will not only buy more, but better articles, and this movement must inevitably tend both to greater volume and greater regularity of employment.

With regard to those industries which are so deficient in capital or in organization that they can only maintain a precarious foothold in the competitive area by underpayment of the workers they employ, it is clear that the community would be better off for their disappearance.

Would the cost of production, and consequently the price of the article to the consumer, be greatly raised by the establishment of minimum rates? Daily experience shows that, in a considerable number of industries, there is a margin which could safely be drawn upon for the leveling-up purposes of a minimum rate. Cases are not infrequently found, for instance, in trades employing women's labor at a sweated wage, where vigorous representation on behalf of the workers, acting upon a wholesome fear of publicity on the part of the employing firm, has produced a considerable increase, amounting on occasion to something like a doubling of the rate of pay. It must be remembered, further, that the cash margin is not the only one at the disposal of employers of labor. Human nature is lazy, and most people need some stimulus to enterprise. The economy which is now too often effected by taking a penny or a halfpenny off the wages of the employes, would, were that method made impracticable by a wages board determination, be otherwise contrived; by the introduction of improved machinery, by better organization, by checking the reckless waste which, where a vast quantity of very cheap articles are made by indifferent workers laboring desperately against time, swallows up a considerable amount of profit every year, and by abolition of the ruinous practice of selling under cost price in the case of certain of the articles manufactured, in order to make a market for the rest. Further, all industrial experience teaches that with the improvement of the workman comes improvement also in his work, even where this is highly organized. Nor is cost of production necessarily lowest where the wages are low and the hours long.

Apprehension is often expressed lest the minimum wage, once established in an industry, should become the maximum in that industry; and assertions that this actually occurs have not been wanting. Again, there is much testimony from Victoria to support the contrary view. Opening, almost at haphazard, the latest Report of

the Victorian Chief Inspector of Factories, we find, under the heading of the Aerated Water Trade Board, "The Determination is well complied with, *the wages of many of the men and boys being above the minimum.*" A similar state of things is found to obtain at home in industries where minimum rates have been fixed by means of collective bargaining or arbitration under the board of trade. Here, too, the more skilled, industrious, and capable worker is able to earn a higher wage than that calculated on the average capacity of the average man or woman.

The last objection to be considered is what may be called the moral objection. Many of those who have not been brought into personal contact with sweated workers, and with the conditions under which sweated industry is carried on, deprecate the setting up of any machinery which appears to limit the opportunity for free bargaining between employer and employed. They are afraid that such machinery may destroy the spirit of enterprise, and that the assumption of responsibility in the matter of wages by the state will tend to weaken the personal relation between masters and men. To such objectors the best reply is an invitation to study the situation at close quarters and at first hand. They cannot then fail to perceive that the outstanding features in the present position of the sweated worker, especially when that worker is a woman, are absolute inability to bargain freely and total lack of independence. Such a worker must take the work offered, at any terms that may be proposed, under penalty of an immediate drop into the abyss of destitution. The spirit of enterprise is rarely found to animate those who are working excessive hours for a bare pittance. As to the "personal relationship," it is useless to devise schemes for preserving it; for good or evil, it is practically a thing of the past. More and more, industry and commerce, like battleships, tend toward the "all big" type. Everywhere, the business that was formerly the affair of an individual or a family is now the result of the activities of an association or a limited company acting through its salaried servants.

In a great number of cases the employer is practically powerless, even now, to deal personally with his employees. In time to come, as he becomes increasingly the instrument of great impersonal forces, financial and social, behind him, all capacity for such individual dealing will be taken from him. It is only by accepting, under the sanction of the state, the regulation of wages in those industries where it has hitherto gone unregulated, with such results in the shape of economic chaos and human degradation as we have been considering, that the best employer can save himself from being

ultimately dragged down to the level of the worst. For him, as for his workers, an act establishing wages boards would be a genuine measure of protection.

271. The Futility of the Minimum Wage²⁷

BY J. LAURENCE LAUGHLIN

The hysterical agitation for a minimum wage (today urged chiefly for women) has in it no conception of a relation between wages and producing power. It is unsound for several reasons which touch the very interests of the laborers themselves.

It introduces a new and unjustifiable basis of wages—that wages shall be paid on the basis of what it costs the recipient to live. If it is urged, for instance, that a woman cannot live on \$5.00 a week but can live on \$8.00 and hence her minimum wage should be \$8.00, the whole case has not been considered. If we accept—what we should not accept—the principle that wages should be related to the cost of living, and if it is accepted that the woman should live on \$8.00 a week, on what grounds should she ever receive more than \$8.00 a week? On what grounds could any one get \$18.00 a week? At present \$18.00 is paid on the ground that it is earned, that is, on the basis of a relation between wages and producing power. No other basis can stand for a moment in the actual work of industry. Men go into business to gain profit; if, in their opinion, the employe is not worth \$8.00 a week, she will not be retained, no matter what it costs to live. If she is worth to the business \$18.00, that will be the wage. No law can force anyone to remain in a business that does not pay.

The theory of a minimum wage based on the cost of living is flatly inconsistent with the facts of daily life and preparation for any occupation. At what age or point is a beginner, or apprentice, to receive the full legal wage? Is no boy, or apprentice, to be allowed to receive a partial reward till he is a full-fledged adult workman? How about the woman, who, in the economic rôle of domestic labor, knits stockings in odd hours in order to add a little to the family income—shall she receive nothing if not the full legal wage? Shall the boy, or even a young lawyer just entering an office, be forbidden to receive the small stipend of the preparatory period?

Suppose it were required by law to pay shopgirls \$8.00 a week instead of \$5.00 on the ground that the insufficient \$5.00 leads to vice: then, since no ordinary business would pay \$8.00 unless it were

²⁷Adapted from "A Monopoly of Labor," *Atlantic Monthly*, CXII, 451-53. Copyright, 1913.

earned, those who did not earn \$8.00 would inevitably be dropped from employment without even the help of \$5.00 to save them. If \$5.00 is no protection from vice, how much less is no wage at all? This proposal of a minimum wage is directly opposed in practice to the very self-interest of the girls themselves.

It is crass to try to remedy wages which are admittedly too low by fixing a legal minimum wage, which can never be enforced unless private business establishments are to be regarded as state institutions. In a state factory, wages may possibly be determined by law, but not in open competitive business conditions, where the supply of labor has as much influence on wages as the demand. If the supply of women wage-earners converges on only certain kinds of work, wages will be lowered by the very large supply of the workers. There is no exit by this door of legal enactment as to the amount of wages.

The true and immediate remedy is the creation of ready means by which the industrial capacity of the wage-earning women will be increased. The wrong situation—of which low wages, possible starvation, and the temptation to vice are only symptoms—is due primarily to the fact that women thrown on their own resources labor. The remedy lies in the creation of places of instruction where know no trade and crowd each other in the market for unskilled any woman (no matter how poor) shall be taught a trade and have skill given to her by which she can obtain a living wage.

The remedy lies in preventing a congestion of unskilled feminine labor by industrial education. There is no other rational or permanent or human way out of the present wretched situation, if we have the real interest of the workers at heart—and are not interested chiefly in getting some cheap political notoriety.

This conclusion applies to men as well as to women. Is not a skilled carpenter worth more than a blunderer? In any business, does not everyone agree that it is fair to give a very energetic, live, active, skilful salesman more than a stupid? If he is skilled he earns more, because he brings in more business. That being settled we do not fix his wages on what it costs him to live. He has a right to spend his income as he pleases. Hence if we were to adopt the theory of the minimum wage we should be adopting a new theory of wages, which would justify the refusal to pay higher wages based on efficiency.

The only real permanent aid to low wages is to increase the productivity and skill of the persons at the bottom. Instead of talking of such injurious palliatives as minimum wages, create institutions at once where those persons can be given a trade or training for a

gainful occupation. The cry for a minimum wage is evidence of the industrial incapacity, the lack of producing power, in masses of our people. The concrete ways of increasing the productive power of each man and woman are not unknown. Moreover, the captain of industry can introduce carefully worked-out plans for helping his operatives to rise in life; to better conditions by welfare work; to encourage savings and thrift; to introduce the stimulus of profit-sharing; and, above all, establish civil-service methods devised to pick out and promote the promising youth so that the path from the bottom to the top is open to every employee. Under unrestricted competition, there will be seen the inevitable results of "natural monopoly" by which superiority comes to its own and wages are in some proportion to productive power.

272. A Minimum Wage for Immigrants²⁸

BY PAUL U. KELLOGG

My plea is to draft into our immigration law the provision that no immigrant who arrives here after a specified date shall be permitted to hire out to a corporate employer at less than a living wage, say \$2.50 or \$3.00 a day—until five years has elapsed, and he has become a naturalized citizen. When he is a voter, he can sell his American workright for a song if he must and will, but until then he shall not barter it away for less than the minimum cash prize, which shall be determined as a subsistence basis for American family livelihood.

It would be neither the intent nor the result of such legislation to pay newcomers foreigners \$3.00 a day. No corporation would hire Angelo Lucca and Alexis Spivak at \$3.00 as long as they could get John Smith and Michael Murphy and Karl Schneider for less. It would be the intent and result of such legislation to exclude Lucca and Spivak and other "greeners" from our congregate industries, which beckon to them now. It would leave village and farm and country open to them as now. Meanwhile, as the available labor supply fell off in our factory centers, the wages paid Smith, Murphy, Schneider, and the rest of our unskilled labor would creep up toward the federal minimum.

First a word as to the constitutionality of such a plan. It would be an interference with freedom of contract; but the contract would

²⁸Adapted from "Immigration and the Minimum Wage," *Annals of the American Academy of Political and Social Science*, XLVIII, 75-77. Copyright, 1913.

lie between an alien and a corporation ; between a non-citizen and a creature of the state. I have the advice of constitutional lawyers that so far as the alien workman goes the plan would hold as an extension of our laws regulating immigration. On the other hand, the corporation-tax laws afford a precedent from setting off the corporate employer and regulating his dealings.

For three special reasons my belief is that the general enforcement of such a law would be comparatively simple. Sworn statements as to wage payments could be added to the data now required from corporations under the federal tax law. This would be an end desirable in itself. In the second place every resident worker would report every violation that affected his self-interest or threatened his job. For my third reason I would turn to no less a counsel than Mark Twain's *Pudd'n Head Wilson*. With employment report cards half a dozen clerks in a central office in Washington could keep tab on the whole situation by means of finger prints. Finger prints could be taken of each immigrant on entry ; they could be duplicated at any mill gate or mine entry by the employer, filed and compared rapidly at the Washington bureau.

As compared with joint minimum wage boards affecting men and women alike, as do those of Australia and England, the plan would have the advantage of not being democratic. The workers themselves would not take part in its administration. The plan would have the signal advantage of being national, so that progressive commonwealths need not penalize their manufacturers in competing with laggard states.

As compared with the literary test, the plan would not shut America off as a haven of refuge and would not, while it was under discussion, range the racial societies and the internationalists alongside the steamship companies and the exploiters of immigrant labor. It would have an even more profound influence on the condition of life and labor.

What are the positive benefits to be expected from such a program?

1. It would gradually, but irresistibly, cut down the common labor supply in our industrial centers.
2. Once the unlimited supply of green labor was lessened in these industrial centers, a more normal equilibrium would be struck between common labor and the wages of common labor. Now it is like selling potatoes when everybody's bin is full.
3. It would tend to stave off further congestion in the centers of industrial employment and give us a breathing spell to conquer our housing problems and seat our school children.

4. It would shunt increasing numbers of immigrants to the rural districts and stimulate patriotic societies to settle their fellow-countrymen on the land.

5. It would tend to cut down the accident rate in industries where "greeners" endanger the lives of their fellows.

6. It would cut down the crowd of men waiting for jobs at mill gates and street corners, correspondingly spread out rush and seasonal work, and help along toward the time when a man's vocation might mean a year-long income for him.

7. It would give resident labor in the cities a chance to organize at the lower levels and develop the discipline of self-government.

8. It would put a new and constructive pressure on employers to cut down by invention the bulk of unskilled occupations, the most wasteful and humanly destructive of all work.

273. The Progress of the Minimum Wage²⁹

Since 1912, when the first minimum-wage law in the United States was enacted in Massachusetts, fourteen states and Congress for the District of Columbia have adopted legislation the aim of which is to fix the lowest wage which may legally be paid to women and child workers. The states in question are Arizona, Arkansas, California, Colorado, Kansas, Massachusetts, Minnesota, Nebraska, North Dakota, Oregon, Texas, Utah, Washington, and Wisconsin. These laws are of two types. Three states—Arizona, Arkansas, and Utah—have specified the minimum rate in the statutes. In all the other states the laws lay down only the general principles that wages shall be sufficient to meet the "necessary cost of proper living," or some similar standard, and leave to a commission the duty of determining wage rates which conform to the principle.

The constitutionality of the minimum wage legislation was established in 1917 through an even decision of the United States Supreme Court,³⁰ which left in force a previous favorable decision by the Oregon Supreme Court.³¹ Since this decision several other laws have been upheld by state supreme courts.

All the laws except those of Arizona, North Dakota, Texas, and the District of Columbia apply to all industries. In Arizona a specific list of establishments is covered, most important of which are fac-

²⁹Adapted from "Minimum Wage Legislation in the United States," *American Labor Legislation Review*, IX (1919), (advance proof sheets).

³⁰*Stettler v. O'Hara*, 37 Sup. Ct. 475.

³¹*Stettler v. O'Hara*, 69 Ore. 519, 139 Pac. 743.

tories, laundries, stores, restaurants, and offices. The District of Columbia and North Dakota and Texas acts exempt domestic servants; the acts of North Dakota and Texas, agricultural laborers; and the Texas act, students working their way through school, and miners. The three flat rate laws cover only females; the remainder cover women and minors, who are defined as persons under eighteen, except in Minnesota and Wisconsin, where the protection is extended to all under twenty-one, and in Texas where it is limited to those under fifteen. None of the laws applies to adult males.

Arkansas and Utah set a minimum wage of \$1.25 a day for all experienced females. In Arizona the act fixes a minimum of \$10 a week for all females. The other states have in the main adopted as the standard the principle of the "living wage." The phrase used in a number of laws is that wages must be sufficient "to cover the necessary cost of living and to maintain the health and welfare" of the worker. All the states having commission regulation of wages, except Texas, permit the payment of lower wage rates to "learners" and "apprentices," and, generally by some form of special license, all allow lower rates to women less capable than the average worker because of age or physical defect.

The commissions which determine wage standards are made up of from three to five persons appointed by the governor. The members are often required to be representatives of employers, female employees, and the public. In Colorado and Wisconsin the wage-fixing body is the state industrial commission. In California, Kansas, North Dakota, Oregon, Washington, and Wisconsin, the commissions may fix certain standards of hours and working conditions as well as minimum wages; in Texas merely standard working conditions. Elsewhere they deal only with wages.

The first step in the determination of wages for a given occupation is investigation of existing wage scales. For this purpose the commission is given power to enter the employer's premises, to examine books and wage records, to subpoena witnesses, and to administer oaths. The commission may act on its own initiative. It is often required to act on complaint of a specified number of employees.

The creation of a subordinate advisory board or conference in the occupation, to recommend minimum rates to the commission, is also provided for, except in Texas. This body is made up of an equal number of representatives of employers and employees from the industry under consideration, representatives of "the public" (except in Wisconsin), and frequently a member of the commission as chairman.

In Colorado, Massachusetts, and Minnesota its members must be elected, whenever possible, by the employers and employees concerned. When women's wages are under consideration the creation of a wage board is in some states required and in some optional with the commission, but rates for minors are fixed by the commission direct. The commission may accept the decision of the subordinate board, may refer it back for further consideration, or form another board for further recommendation.

After a wage rate has been fixed, most of the laws authorize re-investigation and revision of the award on petition of the employers or employees affected. A court review of wage rulings is, as a rule, specifically provided for, but in most instances it can be on questions of law only and not of fact.

Every state provided for enforcement of the wage standards established, with the exception of Arizona; where apparently there is no enforcing authority. In the states where the commission method of determining standards is used, enforcement is in charge of the commission itself. In Arkansas and Utah it is in the hands of the agency enforcing the other labor laws of the state. In California, Colorado, Texas, Washington, and Wisconsin, the commission can, seemingly, take action against violation of wage rulings only on complaint. In Massachusetts and Nebraska employers paying less than the minimum wage are punishable merely by publication of their names, but a fine may be imposed on newspapers refusing to publish such names. Elsewhere violation may be punishable by fine or imprisonment or both. Discrimination by employers against employees who testify regarding wages, and in Colorado, District of Columbia, and Massachusetts, against those who serve on a wage board, is punishable by a fine. Employees receiving less than the legal minimum may bring suit for the unpaid wage balance together with the costs of the suit.

274. Compulsory Arbitration in Theory and Practice²²

BY JAMES EDWARD LE ROSSIGNOL AND WILLIAM DOWNIE STEWART

There is a pretty well-defined theory in justification of compulsory arbitration in the minds of those who favor that method of settling industrial disputes. The competitive system, in this view, has resulted in two great evils; sweating and strikes. Under sweating the workers receive less than enough to secure a decent subsistence for a human being, and the strike is a form of private war in

²²Adapted from *State Socialism in New Zealand*, pp. 238-47. Copyright by Thomas Y. Crowell & Co., 1910.

which the strongest win, not those who have justice on their side, and which causes great inconvenience to the public, who are a third party in every strike. All this evil and injustice should be done away with by an appeal to a court.

On the surface the theory appears to be highly reasonable, but when put into practice serious, if not fatal, difficulties arise. One of these has to do with the discovery of specific principles of justice; the other with the enforcement of awards supposedly just.

The theory of fair wages that appears to prevail is the doctrine of the living wage, stated both in its negative and its positive form. Stated negatively, the theory holds that extremely low wages, such as are found under the sweating system, are not fair wages, because insufficient to afford a decent living according to the colonial standard. Stated positively, a fair wage is a wage which is sufficient to give the worker a decent living according to the colonial standard.

Other difficulties arise when the theories are applied to actual cases. For example, a wage which would be quite sufficient for a single man might be inadequate for a married man, and should vary with the size of his family and their ability to contribute to their support. Again, a living wage for a skilled worker must be higher than that for a common laborer, since his standard of living is higher. This arises from the fact that skilled laborers are scarce, but this introduces another complicating factor, the supply of labor, which, in densely populated countries, threatens to destroy, not only the theory, but the possibility of a living wage.

These and other complications prevent the creation of a body of legal principles defining and explaining the nature of fair or reasonable wages, but do not prevent the court from bearing in mind the desirability of keeping the customary standards of colonial life from falling, and the equal or greater desirability of raising those standards as much as possible. The doctrine of a living wage, then, is not an established legal principle, but an ideal toward which people may strive.

In practice, the awards appear to be based on two main principles; first the desire and intention of the court to secure a living wage to all able-bodied workers; second, the desire of the court to make a workable award, that is, to grant as much as possible to the workers without giving them more than the industry can stand. In doing this regard must be had to the prosperity of a given industry as a whole, if not to the profit of individual employers. It is usually taken for granted that no reduction will be made in the customary wages in any industry, and, in times of depression, this

might be regarded as a third regulative principle. Again, it is the custom of the unions, in formulating their disputes, to demand more than they expect to get, knowing that, in the worst case, they will lose nothing. So frequently has this been done that one might almost lay down a fourth regulative principle, the principle of splitting the difference.

The rigidity of system which is characteristic of the railway rates seems to be taking possession of the regulation of wages also. When the awards were few in number, it was easy to make a change without any serious disturbance in industry; but now that they are numerous and their scope has been widely extended, it is difficult to make a change in one without making many other changes, for the sake of adjusting conditions of labor to the changing conditions of business.

Another stumbling-block in the way of advance in wages is the inefficient or marginal or no-profit employer, who, hanging on the ragged edge of ruin, opposes the raising of wages on the ground that the slightest concession would plunge him into bankruptcy. His protests have their effect on the Arbitration Court, which tries to do justice to all the parties and fears to make any change for fear of hurting somebody. But the organized workers, caring nothing for the interests of any particular employer, demand improved conditions of labor, even though the inefficient employer be eliminated and all production be carried on by a few capable employers doing business on a large scale and able to pay the highest wages. This is not to say that even the most efficient employers could afford to pay wages much in excess of those now prevailing.

From such a statement as this it is but a step to the position that wages are determined chiefly by economic laws, and that the Arbitration Court can cause, at most, very slight deviations from the valuations of the market.

It is not easy to show that compulsory arbitration has greatly benefited the workers of the Dominion. Sweating has been abolished, but it is a question whether it would not have disappeared in the years of prosperity without the help of the Arbitration Court. Strikes have been prevented, but New Zealand never suffered much from strikes, and it is possible that the workers might have gained as much, or more, by dealing directly with their employers as by the mediation of the court.

It is a common opinion in New Zealand that the increase in the cost of living has been due largely to the high wages and favorable conditions of labor fixed by the Arbitration Court, but so widespread a result cannot have been due chiefly to local causes.

Manufacturers complain that the awards have been so favorable to the workers as to make it difficult to compete with British and foreign manufacturers, and demand that either the arbitration system be abolished or that they be given increased protection by increased duties on imported goods. It is claimed that the growth of manufactures has not kept pace with the growth of population and the importation of manufactures from abroad.

There is such agreement among manufacturers as to the effect of compulsory arbitration in increasing the cost of production that their statements cannot be lightly dismissed, especially as many unbiased writers concur in the opinion.

Unquestionably, manufacturers, with the exception of the great industries which work up raw materials for market, are not doing any too well, but it is not likely that compulsory arbitration is the chief cause of this. The high wages which manufacturers have to pay are due chiefly to industrial conditions which always prevail in a new, thinly populated country with great natural resources awaiting development.

G. THE HAZARDS OF THE CHILD

275. The Hazard of Birth³³

BY CHARLES J. HASTINGS

To produce a fitter race we must begin with the germ plasm from which it is developed. Eugenists tell us that the moment conception takes place the door of parental gifts is closed. Obviously, then, if we are to develop a fit race there must not be a missing link. Where nature ends nurture must begin. We have no say as regards the man timber out of which our ancestors were made. But we have a say and are responsible for the man timber out of which our descendants will be fashioned.

Every child has a right to be well born, born of parents who are physically and mentally sound. It should develop from a germ plasm which is free from any taint that might militate against it. If our campaign against the unduly high infant death-rate is to be efficient obviously it must begin just after conception has taken place. The necessity for this is apparent when we realize that more than one-third of the infants that die in the first year die during the first month, and from 60 to 70 per cent of these die during the first week. Consequently, if these lives are to be saved it must be by prenatal care. Here the grim monster reaps his harvest, oftentimes by a dual

³³Adapted from "Democracy and Public Health Administration," *American Journal of Public Health*, IX (1919), 174-75.

action, directed both against the mother and the child. If we would save the baby, we must save and protect the baby's mother.

It is well known that the infant nursed at the mother's breast has ten chances to one for life and efficient development that the artificially fed child has. Consequently our prenatal care must embrace not only the efficient piloting of the mother through her pregnancy and confinement but also care that we make it possible for her to nurse her baby.

The fact that the infant depends entirely on the mother's blood for nutrition makes it all the more imperative that the blood be kept in the best possible condition, which can only be accomplished by the efficient safeguarding of the mother's health. Where efficient prenatal care has been established, there has been a marked increase in the number of mothers nursing their babies, and the infant mortality during the first month has been reduced more than 50 per cent.

Obviously, then, prenatal care will not only secure a better and more vigorous race of infants, to start life with, but it will also save the lives of many mothers that are needlessly sacrificed at present.

276. The Hazard of the War²⁴

BY S. JOSEPHINE BAKER

During a war no part of the civilian population suffers so severely as do the children. This suffering seems to be in inverse proportion to their ages. In this country the increase in the rate of wages has not kept pace with the increase in the price of food. In addition to the conservation of food which we have been asked to practice, the families of a large part of our population have been deprived of many types of nourishing food. This has left its mark in the undernourished bodies of many of our children. General reports throughout the country have shown that undernourishment in children has increased rapidly during the last four years. Up to 1914 it had remained practically stationary for some time. When we began to ship food abroad and the prices began to increase in this country, it was the children who were the first to feel the effects. In 1914 in New York City 5 per cent of the children of school age were undernourished. In 1917, 21 per cent showed such definite signs of malnutrition as to demand immediate attention. Wherever the subject has been given serious thought, whether in cities or rural communities, much the same conditions have been found to exist.

²⁴Adapted from "Reconstruction and the Child," *American Journal of Public Health*, IX (1919), 185 ff.

We are only beginning to get reports regarding the women in industry as far as it affects infant life. Even without exact statistics, however, we must consider that many women have gone into industry before marriage, some have worked during the period of pregnancy, and some while their children were still infants. This enormous change in the habits and status of women cannot fail to have an effect upon child life. Left unregulated it may, indeed, be a menace to our future welfare.

The increased cost of milk has had a definitely bad effect on the health of the child of pre-school age. We all acknowledge that milk is an essential food for the growing child and that nothing else can take its place, yet it is rapidly becoming an almost unobtainable luxury for the majority of our children past infancy. It is not enough to say that economic conditions cause this increase in price. Children must have milk. Unless a satisfactory solution of this problem can be reached soon, it is probable that we must seriously consider municipal control of the production and distribution of milk.

It would seem to be time to develop a broad program for conservation of child life in this country. It is realized that our people must be educated and compulsory education has become a part of the law of the land. So efficient has been the school system that in the United States at the present time it is estimated that only 7 per cent of the people are illiterate. No such program for the conservation of health has ever been promulgated. But when we face the facts of our excessive infant mortality, the high death-rate of children under five years of age, the knowledge that 75 per cent of the children of school age have physical defects which might be prevented or easily removed, we may reasonably demand a program for the conservation of children which is as universal as our program of public education. Undernourishment is just as great a menace to the future of the country as illiteracy.

The health and welfare of children are the factors which always determine the vigor and stability of a race. Yet it has been traditional in this country that human life is our cheapest possession. It has always been more difficult for us to part with our property than with our lives. The small ratio of our national and local budgets which have been appropriated to health work has been a disgrace.

The countries of Europe are dealing with questions of health as a national problem. Their work in child welfare, therefore, is direct. In England there is at least one public health visitor or nurse for each five hundred children in the country. In France they are starting a nation-wide system of child conservation.

Europe has lost its child population through decrease in the birth-rate and in many of the countries through an increase in the death-rate. The latter has been met in part by the extension of child welfare work. In this country we have not yet had to face the tremendous loss in our population through the falling birth-rate. The Registrar-General of England estimates that this reduction in the birth-rate has amounted to the loss of 12,500,000 potential lives in Europe since the war began. Possibly because we have not had this problem to contend with, we have not yet awakened to our continued negligence with regard to the waste of life at its beginning. The official figures to date seem to show that the total number of men of our armies who were killed in action or who died from wounds or disease during the nineteen months we participated in the war was about 53,000. During the same period 475,000 children five years of age died in this country. Yet we know that the greater proportion of this number could have been saved. For every soldier who has lost his life abroad nine children under five years of age have lost their lives here.

277. The Hazard of the Coming of Industrialism⁸⁵

BY RUTH MC INTIRE

The story of factory conditions in Japan reads very much like the descriptions of early industrial expansion on England, and for that matter in the United States. In 1911, Japan's first and only national factory law was passed. Under its provisions children under twelve are forbidden to work, and children under fifteen may not work later than ten at night or before four in the morning, nor for more than ten nights in succession, nor where poisonous gases are generated, nor for more than twelve hours a day except when "necessary" truly a mild measure. Yet the manufacturers begged for a period of five years in which to adjust themselves to these sweeping reforms, and in 1916 when the law was due to take effect the capitalists again asked for postponement.

The population of Japan is predominantly rural. Into its relatively peaceful, sane life there has burst the industrial awakening, which has received even greater impetus since the beginning of the war. Consequently the factory workers of which the majority are women are in great part recruited from the rural population. It is common for girls to be contracted for by their parents at an early age. At twelve or thirteen, on leaving the primary school, these small girls are sent into the large cities, where they are barely able to earn a living.

⁸⁵Adapted from "East Is West," *American Child*, I (1919), 34-36.

though they work from daybreak until six, or until nine or ten at night, when the pressure is heavy. The cotton mills run two shifts of twelve hours each. The dust, the heat, and the lack of ventilation are described as appalling. Added to these conditions the girls are commonly housed in dormitories in the mill itself and their rent and food must be paid to the mill owners. It is easy to understand why in one factory in Osaka there was reported a daily accident toll of 50 out of 1,100 employees. Out of the 1,350 girls examined and weighed the loss of weight of those employed on the night shift was about $1\frac{1}{4}$ pounds weekly. In no case did those girls regain what they had lost while on the day shift.

Of the 200,000 new girls entering the factories yearly it is estimated that 13,000 return because of serious illness, chiefly tuberculosis, before the year is over. Statements agree in putting the average life of cotton mill operatives at from five to six years after entering the mills.

In spite of these conditions girls are glad to enter the factories as a welcome change from domestic service. Children from poor families, ten to fifteen years old, are engaged in the homes of the middle and upper classes as baby-tenders—which reminds one of the system prevailing in the poorer quarters of some of our larger cities where children are hired out of school hours to tend babies while the mother is at work. In the country children help in light farming and in caring for the babies, very much as in all rural communities, while the boys of fifteen and up help their parents in the fields. Agriculture is so largely done by hand that every possible worker must be used.

The silk industry is now turning from an essentially home industry, in which the worms were carefully reared and fed in small crops, to a factory industry. It is evident that in Japan as here the factories bring their own accompaniment of sweated home work. For instance the manufacture of snap fasteners, which started in Tokyo after the war began, is partly a home industry, in which women and children are employed. In the factory the women operate the presses, while children feed the fasteners into the power machines and assemble the parts. The fasteners are commonly "carded" in the homes of the laborers, who operate on a piecework system.

Education, until 1908, was compulsory only from six to ten years of age. This period has now been extended to cover six years. Consequently the educational period is calculated to terminate with the age of entering industry.

278. The Hazard of Industry³⁶

BY JOHN CURTIS UNDERWOOD

We have forgotten how to sing: our laughter is a godless thing:
listless and loud and shrill and sly.

We have forgotten how to smile. Our lips, our voices too are vile.
We are all dead before we die.

Our mothers' mothers made us so: the father that we never know in
blindness and in wantonness

Caused us to come to question you. What is it that you others do,
that profit so by our distress?

Yet you and your children softly sleep. We and our mothers vigil
keep. You cheated us of all delight,

Ere our sick spirits came to birth: you made our fair and fruitful
earth a nest of pestilence and blight.

Your black machines are never still, and hard, relentless as your will,
they card us like the cotton waste.

And flesh and blood more cheap than they, they seize and eat and
shred away, to feed the fever of your haste.

For we are waste and shoddy here, we know no God, no faith but fear,
no happiness, no hope but sleep.

Half-imbecile and half-obscene we sit and tend each tense machine,
too sick to sigh, too tired to weep,

Until the tortured end of day, when fevered faces turn away, to see
the stars from blackness leap.

279. The Hazard of the Family Income³⁷

For the great body of our workers the wage system is ill adapted to the provision of opportunity for the next generation. Under it the chances of the child to develop the strongest of the many latent talents with which he is endowed, to enjoy development in mind and body which will fit him for future usefulness, and to choose wisely a place for himself in the industrial system is far smaller than it should be. Even among people in moderate circumstances the capacities of children are neither fully developed nor fully utilized. Among native laborers the art of conserving the resources of child-

³⁶ A poem entitled "Mill Children," in *Processionals*. Copyright by Mitchell Kennerley, 1915.

³⁷ An editorial (1916).

hood is not adequately understood. Among the foreign-born ignorance and lack of means usually defeat the will which would make adequate provision for the child's future.

Among the working classes parents usually know little of the industrial system which is to require the services of their children. They have no way of telling what are "blind-alley" occupations and what opportunities lead to advancement. They cannot determine what the influence of various juvenile occupations are in developing the industrial resources of the child or in robbing him prematurely of vigor of mind and body. They cannot pass intelligent judgment upon the social institutions, such as schools, religious organizations, dancing halls, and moving-picture shows, which claim the attention of the child for recreation or culture. Even if they understood quite well the whole system, industrial and social, it is not theirs to determine the capacities of the child, or to formulate a program which gives him the best preparation for the highest function in life to which his capacities entitle him. The Old World habits of thought and the simple agrarian standards of parents breaks down their authority in making for the child important decisions at ages at which the child is not old enough to decide for himself. So it is that parental responsibility is impotent under modern industrial conditions to make proper provision for the child's adult years.

But means as well as ability may keep the parent from properly providing for his child. To give the advantages necessary to future usefulness to the child imposes a double immediate cost on the parent. It forces upon them expenses incident to education of an individual who might be self-supporting; it also imposes the loss of the wage which the child could earn. Opportunities for children depend to a considerable extent upon the realization by parents of the necessity of making provision for their offspring, and upon their willingness to make the necessary self-sacrifices. But they depend even more upon the financial ability of the family to give children the necessary leisure, an opportunity that is only available provided that the father earns a sufficient amount or the mother engages in outside activities, usually to the neglect of important domestic duties.

In this connection we must note that under the peculiar arrangements of our social system, with the single exception of the meager compulsory education requirement, the responsibility for the conservation of the resources of children rests wholly upon the parents. Under our social system the opportunity of children to obtain training in excess of this minimum depends upon the financial ability of the parents. Thus a very slender thread is depended upon to con-

nect latent resources with the opportunities which await those resources developed. If the father's income is not above the average, if the mother, because of a large family, illness, or other cause, is not able to assume part of the financial burden, opportunity is denied to any but the exceptional child. That small opportunity, too, is in danger of being swept away by any one of many of the chances which may befall one in our industrial world. If unemployment befalls, whether because of the father's unreliable habits or the mere exigencies of market conditions, the child's opportunity is usually gone. If industrial accident befall him, if the processes of "speeding up" cause him prematurely to lose his usefulness, if industrial old-age creeps upon him, it is the child who suffers. Yes, and society suffers, too, through a failure to profit by what the child might offer. Surely the industrial opportunity for the child should be made to rest upon a foundation at least as secure as that which mediaeval agriculture or chattel slavery could offer.

280. The Hazard of the Courts⁸⁸

A bill was filed in the United States District Court for the Western District of North Carolina by a father in his own behalf and as next friend of his two minor sons, one under the age of fourteen years and the other between the ages of fourteen and sixteen years, employes in a cotton mill at Charlotte, North Carolina, to enjoin the enforcement of the act of Congress intended to prohibit interstate commerce in the products of child labor.

The District Court held the act unconstitutional and entered a decree enjoining its enforcement. This appeal brings the case here. The controlling question for decision is: Is it within the authority of Congress in regulating commerce among the states to prohibit the transportation in interstate commerce of manufactured goods, the product of a factory in which, within thirty days previous to their removal therefrom, children under the age of fourteen have been employed or permitted to work, or children between the ages of fourteen and sixteen years have been employed or permitted to work more than eight hours in a day, or more than six days in any week, or after the hour of seven o'clock P.M. or before the hour of six o'clock A.M.

⁸⁸Adapted from the opinion of the court in *Hammar v. Dagenhart*, 247 U. S. 251 (1918). By a vote of five to four the court held the first child-labor act unconstitutional. Congress thereupon placed a prohibitive tax upon products of child labor as a "rider" to the "Revenue Act" of February 24, 1919. The constitutionality of this act has not yet been passed upon by the United States Supreme Court.

The power essential to the passage of this act, the government contends, is found in the commerce clause of the Constitution which authorizes Congress to regulate commerce with foreign nations and among the states.

In each of these instances (referring to the cases cited by the attorney for the United States) the use of interstate transportation was necessary to the accomplishment of harmful results. This element is wanting in the present case. The thing intended to be accomplished by this statute is the denial of the facilities of interstate commerce to those manufacturers in the states who employ children within the prohibited ages. The act in its effect does not regulate transportation among the states, but aims to standardize the ages at which children may be employed in mining and manufacturing within the states. The goods shipped are of themselves harmless. The act permits them to be freely shipped after thirty days from the time of their removal from the factory. When offered for shipment, and before transportation begins, the labor of their production is over, and the mere fact that they were intended for interstate commerce transportation does not make their production subject to federal control under the commerce power.

Commerce "consists of intercourse and traffic and includes the transportation of persons and property." The making of goods and the mining of coal are not commerce, nor does the fact that these things are to be afterward shipped or used in interstate commerce make their production a part thereof. Over interstate transportation, or its incidents, the regulatory power of Congress is ample, but the production of articles, intended for interstate commerce, is a matter of local regulation.

It is further contended that the authority of Congress may be exerted to control interstate commerce in the shipment of child-made goods because of the effect of the circulation of such goods in other states where the evil of this class of labor has been recognized by local legislation. There is no power vested in Congress to require the states to exercise their police power so as to prevent possible unfair competition. Many causes may co-operate to give one state, by reason of local laws or conditions, an economic advantage over others. The commerce clause was not intended to give Congress a general authority to equalize such conditions.

In interpreting the Constitution it must never be forgotten that the nation is made up of states to which are intrusted the powers of local government. And to them and to the people the powers not expressly delegated to the national government are reserved. The power of the states to regulate their purely internal affairs by such

laws as seem wise to the local authority is inherent and has never been surrendered to the general government. To sustain this statute would not be in our judgment a recognition of the lawful exertion of the congressional authority over interstate commerce, but would sanction an invasion by the federal power of the control of a matter purely local in its character, and over which no authority has been delegated to Congress in conferring the power to regulate commerce among the states.

We have neither authority nor disposition to question the motives of Congress in enacting this legislation. The purposes intended must be attained consistently with constitutional limitations and not by an invasion of the powers of the states. This court has no more important function than that which devolves upon it the obligation to preserve inviolate the constitutional limitations upon the exercise of authority, federal and state, to the end that each may continue to discharge, harmoniously with the other, the duties intrusted to it by the Constitution.

In our view the necessary effect of this act is, by means of a prohibition against the movement in interstate commerce of ordinary commercial commodities, to regulate the hours of labor of children in factories and mines within the states, a purely state authority. Thus the act in a twofold sense is repugnant to the Constitution. It not only transcends the authority delegated to Congress over commerce but also exerts a power as to a purely local matter to which the federal authority does not extend. The far-reaching result of upholding the act cannot be more plainly indicated than by pointing out that if Congress can thus regulate matters intrusted to local authority by prohibition of the movement of commodities in interstate commerce, all freedom of commerce will be at an end, and the powers of the states over local matters may be eliminated, and thus our system of government be practically destroyed.

XII

THE PROBLEMS OF UNIONISM AND THE WAGE CONTRACT

You have doubtless heard the statement, "In America there is no class-conscious proletariat; for the American laborer sees in himself a capitalist in embryo." When our country possessed an open frontier, undeveloped natural resources, opportunities for the ready acquisition of property, and a rising standard of living, a vigorous protest against conventional social arrangements was not to be expected. But with the passing of the frontier, the restriction of opportunity, and the increasing tendency toward social stratification, sentiments are changing. As laborers are convinced in increasing numbers that they are permanently of the "proletariat," they express themselves more vigorously against a "system" that makes inequalities possible. This, however, hardly threatens a "class conflict" in the immediate future; our class and group lines run in too many directions and cut each other at too many angles for that.

The "social unrest" is much more closely associated with group than with class interests. There are many groups of large capitalists and of skilled laborers. There exist accordingly many types of "capitalism" and even more of "unionism." Small capitalists and unskilled laborers alike are without consciously developed group feelings and vehicles for the expression of these feelings. It is those who are best off, those who appeal least to our sympathies, whose strength lies in union. However, since these labor groups are everywhere in contact with much the same type of "capitalist groups," they have much the same prejudices, sentiments, and theories. Fighting as they are, each for self, they are creating a common body of labor theory, and their respective interests are impelling them to a certain amount of common activity. The like is true of the capitalists.

A study of the appraisals placed upon unionism by men whose relations to it are very different, show fundamental differences as to the value of such an institution. Perhaps nothing connected with "the labor movement" is harder to understand—or more necessary to an appreciation of the problems of trade unionism—than the theories and attitudes—the viewpoints if you will—of capitalists and laborers. They are as conflicting and contradictory to an outsider as they are obvious and axiomatic to those who hold them. The capitalist, concerned with the "business" side of industry, easily acquires an understanding of the importance of basic institutions. He accordingly thinks in terms of legality, assumes the schemes of values surrounding him to be absolute, surrounds "property," "contract," and their complements with an air of sanctity, regards "the constitution" as supreme, and puts his full trust in the integrity of the courts. In determining the relations of employer and employees, he relies upon the efficacy of free competition and individual bargaining, insists upon his right to prescribe the conditions of employment, and believes quite firmly that identical legal rights guarantee equality of treatment to the two parties.

The laborer, concerned with the technical side of the process, acquires a common-sense philosophy of force; he believes in fatalism; he thinks that the employer has a more strategic position in bargaining than he possesses; he is convinced that capital concentrated under corporate ownership can be fought only by "united" labor. Unity in the labor group, accordingly, is the one thing that is necessary to an improvement in conditions. To secure it he thinks it necessary to insist uncompromisingly upon the "principle of uniform-

ity"; upon a control of apprenticeship, of hiring and discharge, of technique, of materials—in short of all that is necessary to secure in the larger sense the absolutely necessary "closed shop"; and particularly upon collective bargaining. This attitude serves to make quite intelligible such peculiar phenomena as restriction of output, taboos upon non-union materials, and the intense hatred of "scabs."

Industrial conflict, which is the most spectacular side of the trade-union movement, is to be explained very largely in terms of "collective bargaining." The opposing parties make use of quite similar weapons: the strike, for example, finds its counterpart in the lockout, and the boycott in the blacklist. Each of these, curiously enough, resolves itself into the collective exercise of a right which in the individual case is legally recognized. It is not surprising that law, lacking an adequate social philosophy, and accustomed to discover society by aggregating individuals, should have been put to some sore shifts in dealing with these collective weapons. The use of these is usually a part of a protracted campaign prosecuted for many years, using a varied strategy, and employing many different instruments.

In the ten years preceding the war the strategic position of the employers had been greatly strengthened, that of the laborers correspondingly weakened. This is partly due to the greater staying power of capital. In part it is due to the close correspondence between the interests of the employers and the natural development of an individualistic social system. This is evident in the undermining of the powers of unionism by a long succession of court decisions. But to a considerable extent it is due to the effectiveness of employers' associations. Because of their smaller numbers, employers better than laborers can make use of devices which lack full legal approval. The blacklist, for instance, can be effectively used where its very publicity prohibits the use of the boycott. Likewise, through "spies," employers can get advance information of the strategy of an anticipated industrial conflict. It is beyond the power of unions to get any such information. The association has, through careful study, reduced strike-breaking almost to an exact science. The employers have liberally used funds to "educate" the public to the evils of those practices of the unions which are most inimical to them. Immigration, too, has stood them in good stead.

Among its other acts of commission the war has checked this tendency. It has even replaced weakness by strength to such an extent as to give unionism a strategic position far in advance of the wildest dreams of a few years ago. This has come primarily, of course, from the higher pecuniary and social value set upon labor by the great demand for "man power" and the consequent relative dearth. But it has been aided by an increase in knowledge of labor aims and conditions and an improvement in conditions which the demand for increased production has engendered. Arrested immigration, too, has made its contribution to the result. As a consequence organized labor has greater control over the conditions of the wage bargain than ever before.

As yet "unionism" in America is an exclusive organization. Its appeal has been to the skilled. If its intent has been good, it has had little success in appealing to the semi-skilled and the unskilled. Despite the great increase in numbers which the war has brought to it, the unions which make up the American Federation of Labor fall short of representing a majority of American workmen. Outside of its ranks labor is attempting to acquire power by the use of such subtle and harassing methods as "the intermittent strike" and "sabotage." These devices of "revolutionary unionism" are making their way into some very respectable unions. It need not be said that back of these methods is an attitude which insists upon the supposed interests of a small group even at the expense of society as a whole. A more significant innovation is the attempt of labor to "go into politics." This has been most evident in the crisis which led to the passage of the Adamson Act. Attempts at a "labor party" are and for some time will doubtless continue to be sporadic.

Our study of its most conspicuous features must not allow us to overlook the importance of unionism as an agency of control. The information, theories,

and prejudices which the laborers acquire from their unions influence profoundly their thought and action upon non-industrial as well as upon industrial matters. The unions can eliminate from the lives of their members much of economic insecurity, can do much to establish better working conditions, and can set models for the state to use in improving the conditions of unorganized labor. It is more than possible that eventually they can, through the trade agreement, create permanent positions and equities in property for labor, and that these will, under the guise of having been established under free contract, be recognized by law. Our gravest concern is lest, in seeking the interests of the group, the interests of society be completely lost sight of.

A. GROUP AND CLASS CONSCIOUSNESS

281. Bourgeoisie and Proletariat¹

BY WERNER SOMBART

Capitalism is based on the private ownership of all commodities, and therefore also of those which are required for production—raw material, machinery, factories, land. Historic development has brought it about that production in these days is on a large scale; that is to say, it is carried on by the combination of many laborers under uniform direction. Thus, a thousand men are united to work a mine or a machine factory, and hundreds to spin or weave in some big establishment. But the same development has also brought it about that those who work together in this way have not the same rights with regard to the means of production. Some own these means of production, and therefore become the directing factors in the work of production, and also owners of the commodities produced. The others, who form the great mass of the workers, are shut out of possession of the means of production. Hence it follows that, in order to live, they are forced to put their labor power at the disposal of those who do possess the means of production, in return for a money payment. This comes about by way of a wage contract, wherein the laborer, who possesses naught but his labor, agrees with the owner of the means of production, who is on that account the director of production, to undertake to render a certain amount of work in return for a certain amount of pay.

When we remember that all production depends on the combination of labor and the material means of production, then the capitalist system of production differs in the first instance from other systems in that the two factors of production are represented by two separate groups, which must meet and combine if a useful product is to ensue. In this the capitalist system differs, from, let us say, the craft organization of industry, where the laborers were at the same time the owners

¹Adapted from *Socialism and the Social Movement*, pp. 3-8. Published by E. P. Dutton & Co., 1908.

of the means of production. But it differs likewise from slavery in that in the capitalist system the combination of the two groups comes about by free contract in what is known as the wages contract.

The capitalist organization of society is characterized by the race for profit and by a peculiar form of mental activity in individuals which I call "economic rationalism." All economic activities are at bottom directed toward the increase of the money which is put into production, or, in technical language, towards the profitable investment of capital. To this end, all the thoughts of the capitalists or owners of the means of production, or of agents paid by them, are occupied day and night in an almost feverish restlessness in order to bring about the most practical and rational shaping of economic and technical processes.

The social class which stands for the interests of the capitalist system is the bourgeoisie, or middle class. It is made up, in the first place, of capitalist undertakers, and in the second, of a large number of people whose interests are similar to those of the capitalist undertakers. I am thinking of the following elements: (1) All those who are economically independent (or who would like to be so), and are intent on profit-making, and who, moreover, desire a free legal system favorable to profit-making. That would include many shopkeepers, property-owners, agents, stock-jobbers, and so on, and also the more modern of peasant proprietors. (2) All those who are not economically independent, but are associated with the capitalist undertaker in his activities, mostly as his representatives, and who, as a rule, participate in his economic success. That would include paid directors of companies, managers, foremen in large businesses, and people like them.

The class at the opposite pole to this—the one cannot be thought of without the other—I have called the proletariat. In order to get a true conception of this class, we must free ourselves from the picture of a ragged crowd which the term brought to mind before we read Karl Marx. The term "proletariat" is now used in a technical sense to describe that portion of the population which is in the service of capitalist undertakers in return for wages, and elements akin to them.

The free wage-earners form the bulk of this class—all such persons as are employed in capitalist undertakings, leaving out, of course, those mentioned above as belonging to the bourgeoisie because their interests are bound up with the capitalist system.

I have already pointed out that in order to get a true conception of the proletariat we must give up the idea of a ragged crowd. Indeed, the life of the proletarian is not always intolerable. Absolute distress is in no way a special characteristic of the class, though, to be

sure, there are within it innumerable instances of want. But few proletarians are as badly off as the Russian peasant, or the Chinese coolie, or the Irish tenant, none of whom belong to the proletariat. Many a wage-earner, even in Europe, earns more than a university teacher, and in America the average income of this class falls not much below the maximum salary of an extraordinary professor in Prussia.

282. The Historical Basis of Trade-Unionism²

BY SIDNEY AND BEATRICE WEBB

The trade-union arose, not from any particular institution, but from every opportunity for the meeting together of wage-earners of the same trade. Adam Smith remarked that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." And there is actual evidence of the rise of one of the oldest trade-unions out of a gathering of the journeymen "to take a social pint of porter together." More often it is a tumultuous strike out of which grows a permanent organization. Instances are on record in which a number of laborers who have become accustomed to visit public houses have become the nucleus of organization. More than once the journeymen in a particular trade declared that, "It has been an ancient custom in the kingdom of Great Britain for divers Artists to meet together and unite themselves into societies to promote Amity and true Christian Charity," and establish a sick and funeral club, which invariably has proceeded to discuss the rate of wages, and insensibly has passed into a trade union with friendly benefits. If the trade is one in which the members travel the result has been a national trade-union.

But this does not explain why the continuous organizations of wageworkers came as late as the eighteenth century? The essential cause of this was the revolution in industry which came at this time. When such unions arose, the great mass of the workers had ceased to be independent producers, and had passed into the condition of lifelong wage-earners. Such unions came after "the definite separation between the functions of the capitalist and the workman, or between the direction of industrial operations and their execution in detail."

It is often assumed that the divorce of the manual worker from the ownership of his tools resulted from the introduction of machinery and the factory system. Were this true, we should not find

²Adapted from *The History of Trade Unionism*, pp. 21-37. Copyright by Longmans, Green & Co., 1894.

trade-unions earlier than factories. Yet such combinations in England preceded the factory system by half a century, and occurred in trades carried on exclusively by hand labor. Some crafts lent themselves to an advantageous division of labor. Among these there is particularly to be mentioned that of tailoring. Because of the special skill required for tailoring for rich customers, the most proficient tailors were separated from the rest of the journeymen, and became practically a separate social class. This differentiation was promoted by the increasing need of capital for successfully beginning business in the better quarters of the metropolis. By 1700 we find the typical journeyman tailor in London a lifelong wageworker. It is not surprising, therefore, that one of the earliest instances of permanent trade-unionism occurred in that trade. Another instance is that of the woolen workers in the West of England. Again, it is not peculiar that in the year 1790 the Sheffield employers found themselves obliged to take concerted action against the "scissors-grinders and other workmen who have entered into unlawful combination to raise the price of labor." But the cardinal examples of the connection of trade-unionism with the divorce of the worker from the instruments of production is seen in the rapid rise of trade combinations on the introduction of the factory system.

It is easy to understand how the massing together in factories of regiments of men, all engaged in the same trade, facilitated and promoted the formation of workmen's societies. But the rise of permanent trade combinations is to be ascribed to the definite separation between the functions of the capitalist entrepreneur and the manual worker. It has become a commonplace of trade-unionism that only in those industries in which the worker has ceased to be concerned in the profits of buying and selling can effective and stable trade organizations be maintained.

283. The Organization of the Ill-paid Classes³

BY CHARLES H. COOLEY

It is quite apparent that an organized and intelligent class-consciousness in the hand-working people is one of the primary needs of a democratic society. In so far as this part of the people is lacking in a knowledge of its situation and in the practice of orderly self-assertion, a real freedom will also be lacking, and we shall have some kind of subjection in its place; freedom being impossible without

³Adapted from *Social Organization*, pp. 284-89. Copyright by Charles Scribner's Sons, 1909.

group organization. That industrial classes exist cannot be well denied, and existing they ought to be conscious and self-directing.

The most obvious need of class-consciousness is for self-assertion against the pressure of other classes, and this is both most necessary and most difficult with those who lack wealth and the command over organized forces which it implies. In a free society, especially, the Lord helps those who help themselves; and those who are weak in money must be strong in union, and must also exert themselves to make good any deficiency in leadership that comes from ability deserting to more favored classes.

That the dominant power of wealth has an oppressive action, for the most part involuntary, upon the people below, will hardly be denied by any competent student. The industrial progress of our time is accompanied by sufferings that are involved with the progress. These sufferings fall mostly upon the poorer classes, while the rich get a larger share of the increased product which the progress brings.

Labor unions have arisen out of the urgent need of self-defense, not so much against deliberate aggression as against brutal confusion and neglect. The industrial population has been tossed about on the swirl of economic change like so much sawdust on a river, sometimes prosperous, sometimes miserable, never secure, and living largely under degrading, inhuman conditions. Against this state of things the higher class of artisans have made a partly successful struggle through co-operation in associations, which, however, include much less than half of those who might be expected to take advantage of them. That they are an effective means of class self-assertion is evident from the antagonism they have aroused.

Besides their primary function of group-bargaining, unions are performing a variety of services hardly less important to their members and to society. In the way of influencing legislation they have probably done more than all other agencies together to combat child-labor, excessive hours, and other inhuman and degrading kinds of work, also to provide for safeguards against accident, for proper sanitation, for factories and the like. In this field their work is as much defensive as aggressive, since employing interests, on the other side, are constantly influencing legislation and administration to their own advantage.

Their functions as spheres of fellowship and self-development is equally vital and less understood. To have a we-feeling, to live shoulder to shoulder with one's fellows, is the only human life; we all need it to keep us from selfishness, sensuality, and despair, and the hand-worker needs it even more than the rest of us. Usually without pecuniary resources and insecure of his job and his home, he is,

in isolation, miserably weak and in a way to be cowed. The union makes him a part of a whole, one of a fellowship. Moreover, the life of labor unions and other class associations, through the training which it gives in democratic organizations and discipline, is perhaps the chief guarantee of the healthy political development of the hand-working class. That their members get this training will be evident to anyone who studies their working, and it is not apparent that they would get it in any other way.

In general no sort of persons mean better than hand-laboring men. They are simple, honest people, as a rule, with that bent toward integrity which is fostered by working in wood and iron and often lost in the subtleties of business. Moreover, their experience is such as to develop a sense of the brotherhood of man and a desire to realize it in institutions. Not having enjoyed the artificial support of accumulated property, they have the more reason to know the dependence of each on his fellows. Occasionally outbreaks of violence alarm us and call for prompt enforcement of law, but are not a serious menace to society, because general sentiment and all established interests are against them; while the subtle, respectable, systematic corruption by the rich and powerful threatens the very being of democracy.

The most deplorable fact about labor unions is that they embrace so small a proportion of those who need their benefits. How far into the shifting masses of unskilled labor effective organization can extend only time will show.

284. Types of Unionism⁴

BY ROBERT F. HOXIE

A penetrating study of the union situation past and present seems to warrant the recognition of functional types quite distinct in their general characteristics. It is true that these functional types do not in practice represent exactly and exclusively the ideals and activities of any particular union organization or group. That is to say, no union organization functions strictly and consistently according to type. Yet as representing fairly distinct alternative programs of union action and as guides to the essential character and significance of the diverse organizations and groups included in the heterogeneous union complex, these functional types apparently do exist and are of the most vital concern to the student of unionism. There are seemingly four of these distinct types, two of which present dual variations.

⁴Adapted from "Trade-Unionism in the United States: General Character and Types," *Journal of Political Economy*, XXII (1914), 211-16.

The first and perhaps most clearly recognizable functional type may be termed *business unionism*. Business unionism appears most characteristically in the programs of local and national craft and compound craft organizations. It is essentially trade-conscious rather than class-conscious. That is to say, it expresses the viewpoint and interests of the workers in a craft or industry rather than those of the working class as a whole. It aims chiefly at more here and now for the organized workers of the craft or industry, in terms mainly of higher wages, shorter hours, and better working conditions, regardless for the most part of the welfare of the workers outside the particular organic group, and regardless in general of political and social considerations except in so far as these bear directly upon its own economic ends. It is conservative in the sense that it professes belief in natural rights and accepts as inevitable, if not as just, the existing capitalistic organization and the wage system as well as existing property rights and the binding force of contract. It regards unionism mainly as a bargaining institution and seeks its ends chiefly through collective bargaining supported by such methods as experience from time to time indicates to be effective in sustaining and increasing its bargaining power. Thus it is likely to be exclusive, that is, to limit its membership by means of the apprenticeship system and high initiation fees and dues, to the more skilled workers in the craft or industry or even to a portion of these. In method, business unionism is prevailingly temperate and economic. It favors voluntary arbitration, deprecates strikes, and avoids political action, but it will refuse arbitration and resort to strikes and politics when such action seems best calculated to support its bargaining efforts and increase its bargaining power. This type of unionism is perhaps best represented in the programs of the railway brotherhoods.

The second union functional type seems best designated by the terms *friendly or uplift unionism*. Uplift unionism, as its name indicates, is characteristically idealistic in its viewpoint. It may be trade-conscious or broadly class-conscious, and at times even claims to think and act in the interest of society as a whole. Essentially it is conservative and law-abiding. It aspires chiefly to elevate the moral, intellectual, and social life of the worker, to improve the conditions under which he works, to raise his material standards of living, give him a sense of personal worth and dignity, secure for him the leisure for culture, and insure him and his family against the loss of a decent livelihood by reason of unemployment, accident, disease, or old age. In method, this type of unionism employs collective bargaining but stresses mutual insurance, and drifts easily into political action and the advocacy of co-operative enterprises, profit-sharing, and other

idealistic plans for social regeneration. The nearest approach in practice to uplift unionism is perhaps to be found in the program of the Knights of Labor.

As a third distinct functional type, we have what most appropriately may be called *revolutionary unionism*. Revolutionary unionism, as the term implies, is extremely radical both in viewpoint and in action. It is distinctly class-conscious rather than trade-conscious. That is to say, it asserts the complete harmony of interests of all wage workers as against the representatives of the employing class and seeks to unite the former, skilled and unskilled together, into one homogeneous fighting organization. It repudiates, or tends to repudiate, the existing institutional order and especially individual ownership of productive means, and the wage system. It looks upon the prevailing codes of right and rights, moral and legal, as in general fabrications of the employing class designed to secure the subjection and to further the exploitation of the workers. In government it aspires to be democratic, striving to make literal application of the phrase *vox populi, vox Dei*.

Of this revolutionary type of unionism there are apparently two distinct varieties. The first finds its ultimate ideal in the socialistic state and its ultimate means in invoking class political action. For the present it does not entirely repudiate collective bargaining or the binding force of contract, but it regards these as temporary expedients. It would not now amalgamate unionist and socialist organizations, but would have them practically identical in membership and entirely harmonious in action. In short, it looks upon unionism and socialism as the two wings of the working-class movement. The second variety repudiates altogether socialism, political action, collective bargaining, and contract. Socialism is to it but another form of oppression, political action a practical delusion, collective bargaining and contract schemes of the oppressor for preventing the united and immediate action of the workers. It looks forward to a society based upon free industrial association, and finds its legitimate means in agitation rather than in methods which look to immediate betterment. Direct action and sabotage are its accredited weapons, and violence its habitual resort. These varieties of the revolutionary type may be termed respectively *socialistic* and *quasi-anarchistic unionism*. The former is perhaps most nearly represented in the United States by the Western Federation of Miners, the latter by the Industrial Workers of the World.

Finally in the union complex it seems possible to distinguish a mode of action sufficiently definite in its character and genesis to warrant the designation *predatory unionism*. This type, if it be

truly such, cannot be set apart on the basis of any ultimate social ideals or theory. It may be essentially conservative or radical, trade-conscious or class-conscious. It appears to aim solely at immediate ends, and its methods are wholly pragmatic. In short, its distinguishing characteristic is the ruthless pursuit of the thing in hand by whatever means seem most appropriate at the time regardless of ethical and legal codes or the effect upon those outside its own membership. It may employ business, friendly, or revolutionary methods. Generally its operations are secret and apparently it sticks at nothing.

Of this assumed union type also there appears to be two varieties. The first may be termed *hold-up unionism*. This variety is usually to be found in large industrial centers masquerading as business unionism. In outward appearance it is conservative; it professes a belief in harmony of interests between employer and employee; it claims to respect the force of contract; it operates openly through collective bargaining, and professes regard for law and order. In reality it has no abiding principles and no real concern for the rights or welfare of outsiders. Prevaingly it is exclusive and monopolistic. Generally it is boss-ridden and corrupt, the membership for the most part being content to follow blindly the instructions of the leaders so long as they "deliver the goods." Frequently it enters with the employers of the group into a double-sided monopoly intended to eliminate both capitalistic and labor competition and to squeeze the consuming public. With the favored employers it bargains not only for the sale of its labor but for the destruction of the business of rival employers and the exclusion of rival workmen from the craft or industry. On the whole its methods are a mixture of open bargaining coupled with secret bribery and violence. This variety of unionism has been exemplified most frequently among the building trades organizations under the leadership of men like the late notorious "Skinny" Madden.

The second variety of predatory labor organization may be called, for want of a better name, *guerilla unionism*. This variety resembles the first in the absence of fixed principles and in the ruthless pursuit of immediate ends by means of secret and violent methods. It is to be distinguished from hold-up unionism, however, by the fact that it operates always directly against its employers, never in combination with them, and that it cannot be bought off. It is secret, violent, and ruthless, seemingly because it despairs of attaining what it considers to be legitimate ends by business, uplift, or revolutionary methods. This union variant has been illustrated recently in the campaign of destruction carried on by the Bridge and Structural Iron Workers.

285. The Extent of Trade-Unionism⁵

BY LEO WOLMAN

The problem of determining the extent of trade-unionism in a country can be attacked first by registering the absolute membership of labor organizations and then by calculating the ratio of the membership to the industrial population of the country. Because of the present disorganization in the collection of this form of labor statistics in the United States, the first step necessitates laborious compilation from a large number of scattered sources. The material in the Census of Occupations of 1910 makes a rough estimate of the size of the working class feasible.

The total membership of trade-unions in the United States in 1910 was 2,116,317; in the same year the total number of persons gainfully employed in industry was 38,134,712. The members of trade-unions, therefore, constituted in the last census year 5.5 per cent of the industrial population of the United States. This percentage, however, appreciably underestimates the strength of the trade-union movement because of the inclusion in the aggregate of persons gainfully engaged in industry of members of the employing and salaried classes. These groups numbered 10,939,808. Accordingly the wage-earning group in 1910 can be said to have numbered 27,194,904 persons; and of this number 7.7 per cent were members of labor organizations.

Adherents of the labor movement would maintain that this last index, including as it does agricultural laborers, domestic servants, and clerks, was still not fairly indicative of the strength of trade-unionism. They would use as a basis for the calculation of the percentage of organization that group of wage-earners which the modern trade-union makes definite and sustained efforts to organize. Furthermore practically every trade-union has established a wage limit below which it will not admit workmen. The average lower-age limit may be roughly stated at twenty years. When all persons engaged in industry as agricultural laborers, in domestic and personal service, in clerical occupations, and all persons below the age of twenty be combined and the total for this group be subtracted from the larger total a resulting group of 11,490,944 persons, who may be characterized as constituting a potential trade-union membership, is obtained. With this as a basis the degree of organization is found to be 18.4 per cent. Accordingly, the most conservative survey of the situation would indicate that in the United States in 1910, 92.3 per cent of the wage-earners were unorganized; whereas the more liberal

⁵Adapted from an article with the foregoing caption in the *Annals of the American Academy of Political and Social Science*, LXIX, 118-26. Copyright, 1917.

estimate would show that 81.6 per cent of those persons who are susceptible of organization were without the trade-union.

The foregoing statement must be qualified in one important respect. A large factor in the relative extent of trade-unionism is the territorial distribution of the working force of the nation. The influence upon the growth of labor organizations of the urbanization and concentration of industry is well known. It is the prevalence of thinly settled communities and work in small establishments which explains the surprisingly low percentage of organization. If, therefore, it were possible to calculate the extent of organization among workers living in cities of 10,000 and over, the available data on the subject lead one to believe that the percentage would be much higher than for the country as a whole.

Trade-unionism has in this country made little progress in organizing woman labor. The temporary character of the labor of women, their youth, and the fact that in the great majority of instances their wages are designed to supplement the family income have all constituted serious obstacles to their organization. Accordingly, of the 8,075,000 women "gainfully employed" in the United States in 1910, 73,800 or only 0.9 per cent were members of labor organizations. If deductions, similar to those made above, are made of the women engaged in employing and salaried positions, in agriculture, in domestic and personal service, in professional service, and as clerical workers, a residuum of 1,819,741 women, having an organization of only 4.1 per cent, is obtained. It is probable that since 1910 the proportion of organized female labor has increased rapidly.

A summary of the situation in 1910 would indicate that the small percentage of organizations is due primarily to four factors: (1) The great bulk of the unorganized workers live in small towns and rural districts where their inaccessibility and dispersion make organization both difficult and, if not undesirable, at least not pressing. (2) Of almost equal importance as a problem of organization is the unskilled worker. By reason of the large supply of unskilled labor and the ease with which it may be replaced, organization of the unskilled has, up to the present at least, made little progress. (3) A somewhat greater success in organizing the unskilled laborers seems to have been attained by the use of the industrial form of organization than by the trade-union. It should be noted, however, that, although the majority of American unions are nominally occupational organizations, many are rapidly assuming the character of industrial unions. (4) Finally, the concentration of ownership combined with a hostility to labor organizations has constituted in most cases an insurmountable barrier to the labor organizer.

B. VIEWPOINTS AND UNIONISM

286. The Viewpoint of the Trade-Unionists^a

BY ROBERT F. HOXIE

Among the main charges brought against the unionist by the employer are these: first, that he refuses to recognize the generally conceded rights of the employing class; secondly, that he does not recognize the sacredness of contract; thirdly, that while he is struggling to obtain higher wages and shorter hours of work, he persistently attempts to reduce the efficiency of labor and the extent of the output. Assuming these charges to be substantially correct, let us in the case of each seek without prejudice to discover the real grounds of the laborer's attitude and action.

1. The "rights" which the employer claims, and which the unionist is supposed to deny, may perhaps be summarily expressed in the phrase, "the right of the employer to manage his own business." To the employer it is a common-sense proposition that his business is his own. To him this is not a subject of argument. It is a plain matter of fact and carries with it the obvious rights of management unhampered by the authority of outside individuals. But to the laborer it is different.

The laborer, like all the rest of us, is the product of heredity and environment. That is to say, he is not rational in the sense that his response to any given mental stimulus is invariable. On the contrary, like the rest of us, he is a bundle of notions, prejudices, beliefs, unconscious preconceptions and postulates, the product of his peculiar heredity and environment. These unconscious and subconscious psychic elements necessarily mix with and color his immediate activity. What is or has been outside his ancestral and personal environment must be either altogether incomprehensible to him, or else must be conceived as quite like or analogous to that which has already been mentally assimilated. He cannot comprehend what he has not experienced.

Now, it is well known that the environment of the laborer under the modern capitalistic system has tended to become predominantly one of physical force. He has been practically cut off from all knowledge of market and managerial activities. The ideals, motives, and cares of property-ownership are becoming foreign to him. More and more, in his world, spiritual forces are giving way to the apparent government and sanction of blind physical causation. In the factory and the mine spiritual, ethical, customary,

^aAdapted from "The Trade-Union Point of View," *Journal of Political Economy*, XV (1907), 345-56.

and legal forces and authorities are altogether in the background. Everything to the worker, even his own activity, is the outcome of physical force, apparently undirected and unchecked by the spiritual element. The blast shatters the rock, and whatever of flesh and blood is in range is also torn in pieces. The presence and the majesty of the law and contract are altogether ineffective in the face of physical forces let loose by the explosion. In like manner the knife cuts, the weight crushes, the wheel mangles the man and the material with equal inevitableness. No sanction, religious, moral, customary, or legal, is there. Even outside the strictly mechanical occupations the machine and the machine process are coming to dominate the worker, and the growth in size of the industrial unit renders his economic relationships ever more impersonal—withdraws farther from his knowledge the directing and controlling spiritual forces. The laborer thus environed inevitably tends to look upon physical force as the only efficient cause and the only legitimizing sanction. He tends to become mentally blind to spiritual, legal, contractual, and customary forces and their effects.

To the laborer, as the product of this environment, the proprietary and managerial claims of the employer tend to become, of necessity, simply incomprehensible. The only kind of production which he can recognize is the material outcome of physical force—the physical good. Value unattached to and incommensurable with the physical product or means of production is to him merely an invention of the employing class to cover up unjust appropriation. He knows and can know nothing about the capitalized value of managerial ability or market connections. To him, then, the important point is: By what physical force are these things made what they are? It is a matter of simple observation that the employer exerts no direct or appreciable physical force in connection with the productive process. Therefore, in the eyes of the laborer, he simply cannot have any natural rights of proprietorship and management based on productive activity.

In the same way all other grounds on which ownership and the managerial rights of the employer are based have become inconclusive to the laborer. Appropriation, gift, inheritance, saving, contract, in themselves do not produce any physical effect on the only goods which he can recognize. Therefore they cannot be used to prove property in any just or natural sense. They hold in practice simply because back of them is the physical force of the police and army established and maintained by the middle class to protect its proprietary usurpations. Thus the whole claim of the employer to the right to manage his own business to suit himself

has become and is becoming in a way incomprehensible to the laborer on grounds of natural equity. At the same time, by virtue of habit and the sanction of physical force as a productive agent, he sees himself ever more clearly the rightful proprietor of his job and of the products of it. All this is the natural and inevitable outcome of the conditions under which he lives and toils.

2. The unionist laborer does not recognize the sacredness of contract. This is, if anything, a more serious charge than the preceding one.

As a matter of fact, the laborer is so circumstanced that obligations of contract with the employer must appear secondary in importance to his obligations to fellow-workers. This is not difficult to show. Ever since the establishment of the money-wage system, the everyday experience of the laborer has been teaching him the supreme importance of mutuality in his relations with his immediate fellow-workers. The money payment, related not to the physical result of his efforts, but to its economic importance, has been blotting out for him any direct connection between effort and reward. Experience has taught him to look upon his labor as one thing in its effects and another thing in its reward. As a thing to be rewarded he has learned to consider it a commodity in the market. As such he knows that it is paid for at competitive rates. He has learned that, if he undercuts his fellow, prompt retaliation follows, to the detriment of both, and he has learned that combination with his fellow results in better immediate conditions for both.

The worker does not, of course, look far beyond the immediate results. In severing the obvious connection between his task and the complete product, in removing from him all knowledge of the general conduct and condition of the business, in paying to him a fixed wage regardless of the outcome of the particular venture, and in paying him a wage never much in excess of his habitual standard of living, the factory and wage system have accustomed him to a hand-to-mouth existence, have barred him from all the training effects of property-ownership, and have atrophied his faculties of responsibility and foresight. Moreover, it is not to be expected that today's empty stomach will be comforted by tomorrow's hypothetical bread, least of all by bread which is likely to comfort the stomach of another. Is it any wonder, then, that the laborer does not and that he cannot follow the economist in his complicated arguments to prove that, in the long run and on the whole, the keenest competition among laborers brings the highest rewards?

Proneness to breach of contract, therefore, is seen to be a natural and evitable outcome of his life and working conditions.

3. The third charge against the unionist which we have undertaken to examine states that while he is struggling for increase of wages he is at the same time attempting to reduce the efficiency of labor and the amount of the output. In other words, while he is calling upon the employer for more of the means of life he is doing much to block the efforts of the employer to increase those means.

There is no doubt that this charge is to a great extent true. In reasoning upon this matter the employer, viewing competitive society as a whole, assumes that actual or prospective increase in the goods' output means the bidding-up of wages by employers anxious to invest profitably increasing social income. It follows that in competitive society laborers as a whole stand to gain with improvements in industrial effort and process. In the case of the individual competitive establishment it is clear that the maximum income is ordinarily to be sought in the highest possible efficiency, resulting in increased industrial output. At least this is true where there are numerous establishments of fairly equal capacity producing competitively from the same market. Under such circumstances the increased output of any one establishment due to "speeding up" will ordinarily have but a slight, if any, appreciable effect on price. Each individual entrepreneur, therefore, is justified in assuming a fixed price for his product and in reckoning on increase of income from increase of efficiency and industrial product. Apparently it rarely occurs to the employer that this analysis is not complete. Having assumed that definite laws determine the manner in which income is shared among the productive factors, he apparently concludes, somewhat naively, that just as the laborers in society will in the aggregate profit by increase in the social income, so also will the laborers in any individual establishment profit by increase in its income.

To this mode of reasoning, and to the conclusions reached through it, the unionist takes very decided exceptions. To the statement that labor as a whole stands to gain through any increase in the social dividend he returns the obvious answer that labor as a whole is a mere academic conception; that labor as a whole may gain while the individual laborer starves. His concern is with his own wage-rate and that of his immediate fellow-workers. He has learned the lesson of co-operation within his trade, but he is not yet class-conscious. In answer to the argument based on the individual competitive establishment he asserts that the conditions which determine the income of the establishment are not the same as those which govern the wage-rate. Consequently, increase in the

income of the establishment is no guarantee of increase of the wage-rate of the worker in it. Conversely, increase in the wage-rate may occur without increase in the income of the establishment. Indeed, in consequence of this non-identity of the conditions governing establishment income and wage-rate, increase in the gross income of the establishment is often accompanied by decrease in the wage-rate, and the wage-rate is often increased by means which positively decrease the gross income of the establishment.

The laborer's statements in this instance are without doubt well founded. The clue to the whole situation is, of course, found in the fact that the wage-rate of any class of laborers is not determined by the conditions which exist in the particular establishment in which they work, but by the conditions which prevail in their trade or "non-competing group." With this commonplace economic argument in mind, the reasonableness of the unionist's opposition to speeding up, and of his persistent efforts to hamper production, at once appears.

287. Articles of Faith

a) *An Economic Creed*⁷

The National Association of Manufacturers of the United States of America does hereby declare that the following principles shall govern the Association in its work in connection with the problems of labor:

1. Fair dealing is the fundamental and basic principle on which relations between employes and employers should rest.

2. The National Association of Manufacturers is not opposed to organizations of labor as such, but it is unalterably opposed to boycotts, black-lists and other illegal acts of interference with the personal liberty of employer and employe.

3. No person should be refused employment or in any way discriminated against on account of membership or non-membership in any labor organization, and there should be no discriminating against or interference with any employe who is not a member of a labor organization by members of such organizations.

4. With due regard to contracts, it is the right of the employe to leave his employment whenever he sees fit, and it is the right of the employer to discharge any employe when he sees fit.

5. Employers must be free to employ their work people at wages mutually satisfactory, without interference or dictation on the part of individuals or organizations not directly parties to such contracts.

⁷ Resolutions adopted at the Eighth Annual Convention of the National Association of Manufacturers, New Orleans, April, 1903.

6. Employers must be unmolested and unhampered in the management of their business, in determining the amount and quality of their product, and in the use of any methods or systems of pay which are just and equitable.

7. In the interest of employes and employers of the country, no limitation should be placed upon the opportunities of any person to learn any trade to which he or she may be adapted.

8. The National Association of Manufacturers disapproves absolutely of strikes and lockouts, and favors an equitable adjustment of all differences between employers and employes by any amicable method that will preserve the rights of both parties.

9. Employes have the right to contract for their services in a collective capacity, but any contract that contains a stipulation that employment should be denied to men not parties to the contract is an invasion of the constitutional rights of the American workman, is against public policy, and is in violation of the conspiracy laws. This Association declares its unalterable antagonism to the closed shop and insists that the doors of no industry be closed against American workmen because of their membership or non-membership in any labor organization.

10. The National Association of Manufacturers pledges itself to oppose any and all legislation not in accord with the foregoing declaration.

*b) A Political Creed**

Whereas, The National Association of Manufacturers, in convention assembled in New Orleans, in 1903, adopted, declared and promulgated certain principles governing the work of the association in connection with problems of labor; and

Whereas, The past decade has demonstrated the truth of these declared principles; and

Whereas, During the past ten years new and different problems have also emerged, affecting our governmental, economic and industrial society, upon which we deem it our duty at this time to express our attitude and stand; therefore

Resolved, That in addition to the principles heretofore enunciated and declared at our convention in New Orleans in 1903, we, in convention assembled, declare and promulgate, in addition, the following declaration of principles:

First. We hold that the inherent powers of our courts of equity shall not be abridged in the issuance of injunctions in labor disputes.

* Resolutions adopted at the Eighteenth Annual Convention of the National Association of Manufacturers, Detroit, May, 1913.

Second. We hold that the power vested in our courts to punish for contempt of court should not be abridged by the granting of jury trial for contempt.

Third. We protest against class legislation, whether enacted by state legislatures or congress, and we assert that all forms of class legislation are un-American and detrimental to our common good.

Fourth. We pledge our loyalty to our judiciary, upon the maintenance of which, unswerved by passing clamor, rests the perpetuation of our laws, our institutions and our society.

Fifth. We favor the further enactment of equitable, beneficial, and simplified workingmen's compensation legislation.

Sixth. We denounce the subserviency of representatives of the whole people to the dictation of any class legislation.

Seventh. We affirm, in the light of proven facts, that any compromise, toleration, or identification with the leaders of criminal unionism will stultify our liberties and weaken respect for our laws and their just enforcement.

Eighth. We affirm our approval of the enactment of wise and just laws, necessary to improve conditions of labor.

Ninth. We affirm that our tested, self-controlled, representative democracy is adequate, under our constitutional guarantees, to effectuate the real needs and purposes of our national life.

Tenth. We pledge ourself toward the accomplishment of the spirit and purpose of the foregoing.

*c) An Industrial Creed**

BY JOHN D. ROCKEFELLER, JR.

Might not the parties to industry subscribe to an industrial creed somewhat as follows:

1. I believe that labor and capital are partners, not enemies; that their interests are common, not opposed; and that neither can attain the fullest measure of prosperity at the expense of the other, but only in association with the other.

2. I believe that the community is an essential party to industry and that it should have adequate representation with the other parties.

3. I believe that the purpose of industry is quite as much to advance social well-being as material prosperity; that, in the pursuit

* From a speech entitled "Representation in Industry" delivered before the War Emergency and Reconstruction Conference of the Chamber of Commerce of the United States, at Atlantic City, New Jersey, December 5, 1918. This "creed" was officially indorsed by the Conference.

of that purpose, the interests of the community should be carefully considered, the well-being of employees fully guarded, management adequately recognized and capital justly compensated, and that failure in any of these particulars means loss to all four parties.

4. I believe that every man is entitled to an opportunity to earn a living, to fair wages, to reasonable hours of work and proper working conditions, to a decent home, to the opportunity to play, to learn, to worship and to love, as well as to toil, and that the responsibility rests as heavily upon industry as upon government or society, to see that these conditions and opportunities prevail.

5. I believe that diligence, initiative and efficiency, wherever found, should be encouraged and adequately rewarded, and that indolence, indifference and restriction of production should be discountenanced.

6. I believe that the provision of adequate means of uncovering grievances and promptly adjusting them, is of fundamental importance to the successful conduct of industry.

7. I believe that the most potent measure in bringing about industrial harmony and prosperity is adequate representation of the parties in interest; that existing forms of representation should be carefully studied and availed of in so far as they may be found to have merit and are adaptable to conditions peculiar to the various industries.

8. I believe that the most effective structure of representation is that which is built from the bottom up; which includes all employees, which starts with the election of representatives and the formation of joint committees in each industrial plant, proceeds to the formation of joint district councils and annual joint conferences in a single industrial corporation, and admits of extension to all corporations in the same industry, as well as to all industries in a community, in a nation, and in the various nations.

9. I believe that the application of right principles never fails to effect right relations; that "the letter killeth but the spirit giveth life"; that forms are wholly secondary, while attitude and spirit are all important; and that only as the parties in industry are animated by the spirit of fair play, justice to all and brotherhood, will any plan which they may mutually work out succeed.

10. I believe that that man renders the greatest social service who so co-operates in the organization of industry as to afford to the largest number of men the greatest opportunity for self-development and the enjoyment of those benefits which their united efforts add to the wealth of civilization.

288. The Purposes of Trade-Unionism¹⁰

BY JOHN MITCHELL

In its fundamental principle trade-unionism is plain and simple. Trade-unionism starts from a recognition of the fact that under normal conditions the individual, unorganized workman cannot bargain advantageously with the employer for the sale of his labor. Since he has no money in reserve and must sell his labor immediately, since he has no knowledge of the market and no skill in bargaining, since, finally, he has only his own labor to sell, while the employer engages hundreds or thousands of men, and can easily do without the services of any particular individual, the workingman, if bargaining on his own account and for himself alone, is at an enormous disadvantage. Trade-unionism recognizes the fact that under such conditions labor becomes more and more degenerate, because the labor which the workman sells is a thing of his very life and soul and being. In the individual contract between the rich employer and the poor laborer, the laborer will secure the worst of it. The individual contract means that the worst and lowest man's condition in the industry will be that which the best man must accept. From first to last, beginning to end, always and everywhere, trade-unionism stands opposed to the individual contract. There can be no concession or yielding upon this point. There can be no permanent prosperity of the working classes, no consecutive improvements in conditions, until the principle is firmly and fully established, that in industrial life, the settlement of wages, the hours of labor, and all conditions of work, must be made between employers and workingmen collectively and not individually.

Trade-unionism thus recognizes that the destruction of the workingman is the individual bargain, and the salvation of the workingman is the joint, united, or collective bargain. To carry out a joint bargain, however, it is necessary to establish a minimum of wages and conditions which will apply to all. By this it is not meant that the wages of all shall be the same, but merely that equal pay shall be given for equal work. If some are so willing to be over-rushed as to do more than a fair day's work for a fair day's wage, or are willing to allow themselves to be forced into patronizing truck stores, to submit to arbitrary fines or unreasonable deductions, whereas others would rebel at these impositions, it would result that in the competition among the men to retain their positions, those who were most pliant and lowest spirited would secure the work, and the wages, hours of labor, and conditions of employment would be set or ac-

¹⁰Adapted from *Organized Labor*, pp. 2-11. Copyright by the American Book and Bible House, 1903.

cepted by the poorest, most cringing, and least independent of workers. If the trade-union did not insist upon enforcing common rules providing for equal pay for equal work and definite conditions of safety and health for all workers in the trade, the result would be that all pretense of a joint bargain would disappear, and the employers would be free constantly to make individual contracts with the various members of the union.

The trade-union does not stand for equal earnings for all workmen. It does not object to one man's earning twice as much as the man working by his side, provided both men have equal rates of pay, equal hours of work, equal opportunities of securing work, and equal conditions of employment. What the union insists upon is that certain minimum requirements be fulfilled for the health, comfort, and safety of all, in order that the workingmen shall not be obliged to compete for jobs by surrendering their claims to a reasonable amount of protection for their health, and for their life and limb.

The trade-union thus stands for freedom of contract on the part of workingmen—the freedom or right to contract collectively. The trade-union also stands for definiteness of the labor contract. The workingman agrees to work at a wage offered him by his employer, but frequently nothing is said as to hours of labor, periods for meals and rest, intensity of work, conditions of the workshop, protection of the workmen against filthy surroundings or unguarded machinery, character of his fellow-workmen, liability of the employer for accident, nor any of the thousand conditions which affect the welfare of the workman and the gain of both employer and employe. In the absence of an agreement with the union it is in the power of the employer to make such rules absolutely, or to change or amend them at such times as he thinks proper.

The right to bargain collectively necessarily involves the right to representation. Experience and reason both show that a man, who is dependent upon the good will of an employer, is in no position to negotiate with him. Workingmen should have the right to be represented by whomsoever they wish. The denial of the their representatives, the men cannot enjoy the full benefit of col-right of representation is tyranny. Without the right to choose lective bargaining; and without the right of collective bargaining, the door is open to the evils of the individual contract. To avoid these calamities the workmen demand "the recognition of the union."

C. THE THEORY OF UNIONISM

289. The Principle of Uniformity¹¹

BY ROBERT F. HOXIE

The key to the understanding of union rules and actions is to be found in the fundamental principles and theories of their program. If you understand these thoroughly and the policies to which they give rise, you can generally explain any given rule or act without difficulty; and without that understanding you are almost certain to go astray. In the space available it is barely possible to illustrate in a general way these theories.

Let us, then, by way of illustration, take one of the fundamental principles of business unionism, the principle of uniformity or standardization, and use it as a partial explanation of union policies, demands, and methods. This principle requires that all the men doing the same work use the same kind of tools and materials, work normally the same length of time, and at the same speed, turn out the same quantity and quality of goods, and receive the same rate of wages. The union argument on which the principle rests runs somewhat as follows:

1. Wages and conditions of employment are determined by the relative bargaining strength of the workers and employers of the industrial group.

2. Under competitive conditions the bargaining strength of the employer is greater than that of the individual laborer, because of (a) the superior bargaining knowledge, skill, and waiting power of the employer; (b) the smaller object which he has at stake—pecuniary profits versus life; (c) the presence of an actual or potential oversupply of labor; (d) the increase in bargaining power on the part of the employer in inverse ratio to his industrial and financial strength; (e) the limitation of the bargaining strength of the labor group to the competitive strength of its weakest member.

3. The full bargaining strength of the employer is bound to be exercised against the workers because under competitive conditions the pressure of the consuming public for cheap goods is transmitted through the retailer and the wholesaler to the most unscrupulous employer, who sets the pace; while under monopolistic conditions the relations of the employer and the worker are impersonal.

¹¹Adapted from an unpublished lecture entitled "*The Trade-Union Program*," delivered at the University of Michigan, May 17, 1914. The statements in this paper are general and admit of many exceptions. They constitute a theoretical statement of the tendencies underlying union activities rather than a generalization from such activities. They are not clearly understood even by all unionists.

4. Therefore, allowing the employer to pit his bargaining strength against the bargaining strength of each worker, thus fixing their different rates of work, wages, etc., means the progressive deterioration of the wages and conditions of employment of the group.

5. The only way to prevent this deterioration is to rule out competition by establishing and maintaining the principle of uniformity or standardization, i.e., to require for all the men doing the same work the use of the same kinds of tools and materials, the same working time, the same speed, the same quality of work, and the same output.

Let us see what light this policy throws upon the policies, demands, methods, and attitudes found in the union program. The main purpose of this principle, as we have seen, is to rule out competition. But competition is possible in regard to the wage rate, hours of labor, or the exertion and output of the individual. To prevent the first the establishment of a standard rate of wages at a fixed minimum is necessary. The prevention of the second requires the fixing of a normal day or week as a maximum. The third, in like manner, necessitates uniformity in the conditions and rate of work. It is obvious that these conditions working together make the standard rate a practical maximum as well as a minimum. Hence there arises the tendency toward dead-line mediocrity.

Competition, however, is possible not only in regard to the wage rate, the hours, and the exertion or output, but also in regard to the safety and sanitation, the comfort and convenience of the shop; the times of beginning and ending work; the arrangement of shifts; the time, place, mode, and character of pay; the materials and tools used; and all the minor details of the conditions of work and pay. Hence, to secure uniformity, there arises the necessity of minute specifications of standards in regard to all the incidents of work and pay, from which no deviation can normally be allowed. This explains a multitude of petty and harassing restrictions, of which employers complain, the validity of which rests, not on their immediate character and effects, but on the validity of the general principle of uniformity.

A large part of the trade-union program is thus seen to be a direct effort to establish specific standards incidental to the principle of uniformity. Another large portion is in the interest of enforcement of conditions essential to their existence.

Let us first consider the latter. It is evident that these standards cannot exist if they are violated with impunity; still successful enterprise demands flexibility. Hence there has grown up a long

list of irregularities and violations permitted but charged with penalties. These have the double object of stopping underbidding and of preventing the irregular practices from becoming regularly established. For example, overtime, the doing of extraordinary kinds of work, and the doing of work in irregular ways are allowed, but only on condition of extra pay.

These standards, moreover, are hard to establish and maintain in a thoroughly dynamic industrial state, where new trades are evolving, and new processes are coming in constantly. This in part explains the undoubted tendency of unions to restrict new trades, new machinery, new methods, and new processes in industry—in short, industrial progress.

If we turn to the enforcement of these standards, we shall find that another large block of union policies and demands are, in part at least, in the interests of the principle of uniformity, and are valid if it is valid. The enforcement of these standards means the common rule. But to secure this you must have collective bargaining, or legislation. Collective bargaining implies recognition of the union and all the complex machinery for the making and enforcement of contracts.

Moreover, you cannot enforce these standards unless you control the workers or the working personnel. This, in part, explains apprenticeship regulations, and to the unionist calls absolutely for the closed shop and the control of hiring and discharge of men. It is evident that if you cannot control the men you cannot cut out underbidding in its manifold guise. This is especially true, since the employer is always supposed to be trying to induce it by swifts, bell-horses, secret bonuses, frightening the men, etc.

To enforce uniformity you must also have control over the output of the individual and you must control the processes of production. You must prevent the use of methods of stimulation, such as bonus systems, etc., by the employer. Moreover, you must stop up every minutest loophole for the evasion of the principle by the employer. Hence you must watch him carefully; you must have walking delegates on the job. You must carefully delimit the field of work, and prevent reclassification, so that the employer cannot create exceptions by the use of new men or new work. Here again we find explanation of a great number of harassing detailed demands and rules which the unions endeavor to enforce.

It follows, then, that a large portion of the more specific part of the trade-union program is implied in the principle of uniformity and flows directly from the effort to establish and enforce it.

290. Collective Bargaining and the Trade Agreement¹²

BY JOHN R. COMMONS

Philanthropists have long been dreaming of the time when capital and labor should lay aside the strike and boycott and should resort to arbitration. By arbitration they understand the submission of differences to a disinterested third party. But the philanthropists have overlooked a point. Arbitration is never accepted until each party to a dispute is equally afraid of the other; and when they have reached that point, they can adopt something better than arbitration,—namely, negotiation. Arbitration is impossible without organization, and two equally powerful organizations can negotiate as well as arbitrate. This higher form of industrial peace—negotiation—has now reached a formal stage in a half dozen large industries in the United States, which, owing to its remarkable likeness to parliamentary government in the country of its origin, England, may well be called constitutional government in industry.

The bituminous mine operators and the bituminous mine workers of the four great states of Illinois, Indiana, Ohio and Pennsylvania have such a constitution. The annual interstate conference of the bituminous coal industry is the most picturesque and inspiring event in the modern world of business. Here is an industry where, for many years, industrial war was chronic, bloodshed frequent, distrust, hatred, and poverty universal. Today the leaders of the two sides come together for a two weeks' parliament, face to face, with plain speaking, without politics, religion, or demagoguery; and there they legislate for an industry that sends upon the market annually \$200,000,000 of product.

The most comforting feature of such negotiations is the matter-of-fact way in which each side takes the other. There is none of that old-time hypocrisy on the part of the employers, that their great interest in life is to shower blessings upon their hands; and there is none of that ranting demagoguery on the part of the workmen about the dignity of labor and the iniquity of capital. On the contrary, each side frankly admits that its ruling motive is self-interest; that it is trying to get as much as it can and to give as little as it must; and that the only sanction which compels them to come together, and to stay together until they reach a unanimous vote, is the positive knowledge that otherwise the mines will shut down and neither the miner will earn wages nor the operator reap profits. It is simply wholesome fear that backs their discussions;

¹²Adapted from "A New Way of Settling Labor Disputes," *American Review of Reviews*, XXIII, 328-33. Copyright, 1901.

the capitalist knows that there are no other laborers in the world whom he can import as "scabs" to take the places of those whose representatives face him in this conference and this scale committee, and he knows, too, from a severe experience, that every one of these 110,000 miners will obey as one man the voice of these their chosen representatives. The miners know, also, that these capitalists with whom they are negotiating are the very ones who control their only opportunities for earning the wages that feed themselves and their families. Consequently, everybody knows that an agreement must be reached before adjournment, or else the industry will be reduced to anarchy and their wages and profits, to say nothing of lives, will be destroyed.

In every trade agreement there are usually two large and distinct questions on which the parties differ, namely, wages and methods of managing employees. The labor side wants higher wages (including short hours) and restrictions on bosses and foremen. The employer side wants low wages and a free hand for the boss. Each side thereupon comes to the joint conference with demands more extreme than it expects to see granted. At the conference of 1900 the operators offered an advance of 9 cents per ton and the miners demanded an advance of 20 cents. The operators wished to retain the system of paying for the screened coal only, and not for the slack and waste; but the miners demanded payment on the basis of the "run-of-the-mine," i.e. of all coal brought to the surface, before it is run over the screens. The miners asked also 7 cents differential between pick and machine mining, but the operators wanted 12 cents differential.

These opposing propositions had been formulated in separate conventions and conferences by the opposing sides. The operators' position was presented to the joint conference and received the unanimous "aye" of the operators and the unanimous "no" of the miners. The miners' proposition was then presented, and received the unanimous "aye" of the miners and the unanimous "no" of the operators. The two sides then began their parrying. Mr. Mitchell accused the operators of "joking." The operators accused the miners of absurdity. Several days were spent in these tilts. Finally concessions were made on both sides. Certain matters were left undecided or referred back to the state conferences. The committee reported a unanimous agreement, and the joint conference adopted it unanimously. It gave an advance of 14 cents in some districts, and 9 cents in others. It permitted the "mine-run" standard in certain districts, and the "screened" standard in other districts, and a

"double standard" in yet a third group of districts, but regulated the size of the screen and fixed a wide differential between "mine-run" and a "regulation screen." Similar compromises were made on the machine scale, day labor, and all along the line. Nobody was satisfied, yet everybody was satisfied. It was the best they could do, and it saved the business from paralysis. "A failure to agree," said President Mitchell in his closing speech, "would not only have ruined the homes of the miners, but would have ruined the business of the operators." And though the miners did not get what they expected, yet, said Mitchell, "there has never been a time in the history of mining, even within the recollection of the oldest one among you, when an advance so great as this, and applied to so great a number of men, was secured."

The success of each conference depends directly upon the enforcement of the legislation of the preceding conference. Curiously enough, this enforcement falls solely upon the miners' organization. The operators, indeed, have their several state associations, but no national nor interstate association like that of the miners. Moreover, the operators are loosely organized. They can bring only moral suasion to bear upon the recalcitrant operator who rebels at their national decrees. But the miners can do more; they not only can suspend their own local unions which violate the agreement, but they can shut down the mine of the rebellious operator and drive him out of business. The operators understand this, and they know that their own protection against the cutthroat operator depends solely on the miners union. President Mitchell, of the union, at the close of the Indianapolis conference, significantly accepted his office of joint executive in what might be called his inaugural. He said, "I will give notice to the operators now that when they go home, unless they keep the agreement inviolate, we will call the men out; and I will serve notice on the miners that, unless they keep the laws of the organization, we will suspend them from the organization."

In trade agreements the employer must recognize the union. Employers are willing to pay high wages if all their competitors pay the same wages. It is not high wages that they dread, but secret and unfair cutting of wages. This is also exactly what the laborers resist. The joint state or national agreements place all competitors on the same basis in the same market. Indeed, in the coal trade the scale is nicely adjusted so that the districts with the better quality of coal and the lower railway charges are required to pay enough higher wages than other districts to counterbalance their superior natural advantages. On this basis, so far as the union enforces the

agreement, every operator knows exactly what his competitor's coal is costing; there is no secret cutting; and the trade is not brought down to the level of the few unscrupulous and oppressive operators who grind down their laborers. For this reason the bulk of employers who have had experience with these joint agreements are heartily in favor of them.

The most important result of these trade agreements is the new feeling of equality and mutual respect which springs up in both employer and employee. After all has been said in press and pulpit about the "dignity of labor," the only "dignity" that really commands respect is the bald necessity of dealing with labor on equal terms. With scarcely an exception the capitalist officials who make these agreements with the labor officials of the powerful unions testify to their shrewdness, their firmness, their temperance, their integrity, and their faithfulness to contracts. Magnificent generalship is shown in combining under one leadership the miscellaneous races, religions, and politics that compose the miners of America. The labor movement of no other country has faced such a problem.

291. The Economics of the Closed Shop¹³

BY FRANK T. STOCKTON

In recent popular discussions of the closed shop much emphasis has been put upon its uneconomical character. The charge is made that the demand for the exclusive employment of union men, by interfering with the right of an employer to "run his own business," makes high efficiency impossible. This argument is based on the fact that the employer, under the competitive system, is alone responsible for the successful conduct of business undertakings. If he fails to produce as well and as cheaply as others do, the loss is his. It is necessary, therefore, for the most economic conduct of business that the employer "should have power to order his own affairs." He "should not be influenced by any other consideration in the hiring of men than the ability, fitness or loyalty of the applicant." At the same time he should be free to reward exceptional workmen and to discharge those who are inefficient or insubordinate. He should be the sole judge as to the kind of machinery, tools and material to be used. Only in this way, it is argued, can the employer secure that "effective discipline" which is essential in bringing about the "highest measure of success in industry."

¹³Adapted from *The Closed Shop in American Trade-Unions*, pp. 165-75. Copyright by the Johns Hopkins Press, 1911.

The "essence" of the open shop is that the employer is entirely free "to hire and discharge." The closed shop, on the other hand, denies him the "right to hire and discharge." If the employer wishes to hire competent non-union men, he is prevented from procuring their services if they cannot or will not obtain union membership.

The employer complains that under the closed shop, instead of being able to secure workmen regardless of whether they are union or non-union, white or black, Catholic or Protestant, Jew or Gentile, he is compelled to draw from a definitely fixed labor market. Very often, too, this market is severely limited by the refusal of the unions on one ground or another to admit competent workmen to membership. He cannot hire members of other unions who are competent to do the work because this will at once involve him in a jurisdictional dispute. One trial is enough to demonstrate the fact that members of rival unions tolerate each others' presence less than they do that of non-unionists. There is then no practicable way in which he can secure additional help when his work increases except by bidding for workmen against other union employers. It is also said that the closed shop serves to prevent the discharge of inefficient employees.

Another evil attributed to the closed shop is that it establishes a minimum wage which becomes virtually also a maximum wage. This is said to produce a disastrous "dead level" of efficiency throughout an establishment and to discourage effort. Accordingly union control is declared to be "absolute death to individual effort and ambition," and to cause the degeneration of "mental and moral fiber." Restriction of output is the direct result of such conditions. Especially harmful does the closed shop become, in the opinion of its opponents, when a union requires foremen to obey its rules and to serve the union rather than the employers. All closed-shop unions, it is represented, "define the workman's rights but say nothing of his duties. They destroy shop discipline and put nothing in its place."

To these indictments the advocates of the closed shop have made vigorous rejoinder. They assert that while the unions do not allow employers to "victimize" their members, they do not interfere otherwise with the "right to hire and discharge" as long as all persons who are hired become union members. It is also flatly denied that the minimum wage is usually the maximum, and that production is restricted in closed shops.

The reconciliation of these conflicting statements of facts is possible. The opponents of the closed shop in discussing its economic effects always assume that the closed shop is everywhere the same,

and take as typical those unions in which the restrictions on employment are most severe. The advocates of the closed shop assume as typical those unions in which the restrictions are mildest. It will be noted that in this respect the unions vary widely. In the majority of closed-shop unions, however, the employer is allowed to hire non-unionists when competent unionists are not available, or even in many unions when they are available. It is also customary to allow such non-unionists to work a certain period in a shop before being required to join the union. There is little basis for the claim, therefore, that employers are restricted to hiring union men only. It is true that "scabs" and members of rival unions are rarely allowed to work. "Scabs," however, form but a small part of the men in any trade, and agreements between rival unions have now to some extent solved the problem of jurisdictional disputes.

If the union itself is closed, union employers have no means of obtaining additional help when their business increases. The closed union, however, although it is usually found with the closed shop, is not identical with it. To say that no more members shall be admitted to a union is an entirely different thing from saying that union men shall not work with non-unionists.

All unions that have advanced beyond the most rudimentary stage enforce a minimum wage. The tendency to uniformity and a "dead level" growing out of the existence of the minimum wage can only be connected with the closed shop through some restriction on the right to hire and discharge. If the union has a compulsory waiting list, it is easy to see how the minimum wage may become the maximum wage. However, compulsory waiting lists are established in very few unions. Similarly, restriction of output is connected with the closed shop only through the waiting list. A great part of closed-shop unions do not have waiting lists.

It is also charged that the joint and extended closed shops lead to demands upon employers. When satisfactory conditions have been obtained in one trade, the men may be called out on strike because "unfair" material is used, or because the open shop exists in an allied trade. Grievances "manufactured outside the shop" are thus said to be constantly arising. Complaint is also made that the closed shop is responsible for many unnecessary shop rules which virtually deprive the employer of control over his business. One writer has gone so far as to say that "the amount of restriction which it may be expected to find in 'closed shops' will certainly amount to one-third of what the output should amount to." Statements have frequently been made that the open shop has brought business prosperity to different communities.

Taking up the last of these contentions first, the unions allege that closed-shop agreements are of distinct advantage to employers. In open shops of most trades the employer is said to be constantly harassed with complaints from individuals. In closed shops all grievances must first be referred to the union, which acts upon many of them unfavorably. It is equally undeniable that most unions which have opportunity to enforce the extended or the joint closed shop have not hesitated at times to strike even when all their demands in the particular shop have been satisfied.

The unions have also denied in a general way that their shop rules have been unduly restrictive. As a matter of fact, the great open-shop movement which began in 1901 was caused primarily by the rapid increase in rules regulating the number of apprentices, the kind of machinery that should be used, the method of shop management, and the like. The connection between the closed shop and arbitrary shop rules is close, but the two are not identical. Arbitrary rules can rarely be enforced except in closed shops. If the union is strong enough to secure the one, it can, if it sees fit, enforce the other. Obviously, however, a closed-shop union need not, and many of them do not, have hurtful shop rules.

The defenders of the closed shop have tried to show that the closed shop is an advantage to an employer. In the first place, they claim that the closed shop protects fair-minded employers from "cut-throat competition." If an industry is thoroughly unionized, every manufacturer or contractor can tell precisely what his competitors are paying in wages. As wages form the largest item in the average employer's expense account, it therefore becomes possible for him to "figure intelligently on his work," something which he "could never feel certain of were the open shop to prevail." The same shop rules also apply in all union establishments. Under the open shop not nearly the same uniformity in competitive conditions can be secured. The closed shop is a device absolutely essential to the rigid and wide enforcement of union rules.

Secondly, those who uphold the closed shop affirm that it tends to create a greater *esprit de corps* among the men than the open shop does. Union and non-union men represent two diametrically opposed ideas. The first stand for collective, the second for individual action. Consequently, there is constant conflict between the two in the endeavor to obtain control over a shop. Because his men do not co-operate, the employer is likely to lose money. Therefore as a business necessity open shops must become either union or non-union. That there should be ill-feeling between union and non-union men is easily understood when we consider why unions desire

the closed shop. Non-union men are the economic enemies of unionists as long as employers resort to individual bargaining or express a dislike for full union control. In particular, efforts are put forth to make the employment of "scabs" unprofitable.

Finally, unionists say that the closed shop is advantageous to employers because in many unions it carries with it the privilege of using a label that has a distinct market value. No union solicits work for an open shop. A label, however, is an advantage to an employer only under certain conditions. It can be used to best advantage on articles largely purchased by the laboring classes. That a label increases sales on such goods is evidenced by the fact that manufacturers, solely for the purpose of obtaining the use of the label, have often asked that their establishments be unionized. The labor journals not infrequently contain statements from employers that the closed shop is a "good business proposition." But the label rarely effects an increase in the demand for expensive goods or for articles sold to women. It is evident, therefore, that the number of employers who can find an advantage in the use of the labels is small relative to the total number of employers.

To sum up the arguments against the closed shop on the ground that it affects unfavorably the economic conduct of industry, it may be said that the crux of the question is whether or not the "right to hire and discharge" is unduly restricted under the closed shop. The employer may enjoy the use of a valuable label and may be placed on a "fair competitive basis" with other employers. Individually the employer may reap a gain. But in the long run industry will be carried on less efficiently if by waiting lists or other restrictive devices the union interferes with the employer's hiring and discharging his working force in accordance with his best judgment.

292. The Ethics of the Closed Shop¹⁴ •

BY JAMES H. TUFTS

In certain industries in which the workmen are well organized they have made contracts with employers which provide that only union men shall be employed. The psychological motive for the demand for the closed shop is natural enough; the union has succeeded in gaining certain advantages in hours or wages or both; this has required some expense and perhaps some risk. It is natural to feel that those who get the advantage should share the expense and effort, and failing this, should not be admitted to the shop. If the

¹⁴Adapted from *Ethics*, by John Dewey and James H. Tufts, pp. 559-61. Copyright by Henry Holt & Co., 1909.

argument stopped here it would be insufficient for a moral justification for two reasons. First, joining a union involves much more than payment of dues. It means control by the union in ways which may interfere with obligations to family, or even to the social order. Hence, to exclude a fellow workman from the opportunity to work because he—perhaps for conscientious reasons—would not belong to the union, could not be justified unless the union could make it appear that it was maintaining a social and not merely a group interest. Second, in some cases unions have sought to limit output. In so far as this is done, not for reasons of health, but to raise prices, the union is opposing the interest of consumers. Here again the union must exhibit a social justification if it is to gain social approval.

On the other hand, it may be noted that the individualist who believes in the competitive struggle as a moral process has no ground on which to declare for "open shop." Exactly the same principle which would permit combination in capital and place no limit on competitive pressure, provided it is all done through free contracts, can raise no objection against combinations of laborers making the best contracts possible. When a syndicate of capitalists has made a highly favorable contract or successfully underwritten a large issue of stock, it is not customary under the principle of "open shop" to give a share in the contract to all who ask for it, or to let the whole public in "on the ground floor." Nor are capitalists accustomed to leave a part of the market to be supplied by some competitor for fear such competitor may suffer if he does not have business. When the capitalist argues for the open shop upon the ground of freedom and democracy, it seems like the case of the mote and the beam.

An analogy with a political problem may aid: Has a nation the right to exclude (or tax heavily) goods or persons from other countries? May it maintain a "closed shop"? The policy of the American colonists and of the United States has varied. The Puritans maintained a "closed shop" on religious lines. They came to this country to maintain a certain religion and polity. They expelled several men who did not agree with them. The United States excludes Chinese laborers, and imposes a tariff which in many cases is intended to be prohibitive against the products of other countries. This is done avowedly to protect the laborer, and in so far as it is effective it closes the shop. The maxim, "This is a white man's country," is a similar "closed shop" utterance. On moral grounds the non-union man is in the same category as the man of alien race or country. What, if anything, can justify a nation or group from excluding others from its benefits? Clearly the only conditions are

(1) that the group or nation is existing for some morally justifiable end, which (2) would be endangered by the admission of the outsiders. A colony established to work out religious or political liberty would be justified in excluding a multitude who sought to enter it and then subvert these principles. If a union is working for a morally valuable end, e.g., a certain standard of living which is morally desirable, and if this were threatened by the admission of non-union men, the closed shop would seem to be justified. If the purpose were merely to secure certain advantages to a small group, and if the open shop would not lower the standard but merely extend its range of benefits, it is hard to see why the closed shop is not a selfish principle—though no more selfish than the grounds on which the tariff is usually advocated.

D. THE WEAPONS OF INDUSTRIAL CONFLICT

293. The Function of the Strike in Collective Bargaining¹⁵

BY JOHN MITCHELL

The normal condition of industry is peace. The average workman, engaged in industries in which strikes occur, loses less than a day a year in this manner. A strike lasts upon the average about twenty-three days, but the average employer carries on his business for thirty years without a strike. The average lockout lasts ninety-seven days, but of a thousand establishments, less than two declare a lockout in the course of a year.

A strike is simply a method of bargaining. If the grocers of a city would refuse to sell their sugar for less than seven cents a pound and the customers would refuse to pay more than six, exactly the same thing would occur as happens in an ordinary strike. A strike does not necessarily involve any form of bitterness; it merely represents a difference between what the buyer of labor is willing to offer, and what the seller of labor is willing to accept. Until the buyer and seller of an ordinary commodity agree as to price and conditions no sale can be effected. Until the wages and conditions of work are agreed upon and acceded to by both employer and workman, the industry must stop.

Strikes thus result from a failure to make a bargain or contract by men who are free to contract. Strikes cannot exist before freedom of contract is accorded. The present conception of a strike is that of workmen and employers exercising their undoubted right to

¹⁵ Adapted from *Organized Labor*, pp. 299-306. Copyright by the American Book and Bible House, 1903.

refuse to enter into contracts where the conditions are not satisfactory to them.

It is frequently stated that trade-unions desire strikes because they are organized for that purpose. This is not true. The trade union is organized for the purpose of securing better conditions of life and labor for its members, and, when necessary, a strike is resorted to as a means to that end. The same conditions which cause the creation of trade-unions are equally answerable for the constant demand for improved conditions for the working class, which demand frequently voices itself in strikes.

Strikes are to be avoided in all cases where the object desired can be obtained by peaceful negotiation. There is nothing immoral, however, in the workingman's striking, just as there is nothing immoral in his wanting higher wages.

294. The Utility of the Strike¹⁶

BY FRANK JULIAN WARNE

A strike is simply a piece of industrial machinery, if it may be so termed, which the organization of the trade-union provides for the attainment of well-defined and laudable objects. Its operation does not necessarily mean the violation of law, or the destruction of property, or the taking of human life. All these, where in evidence, are unforeseen incidents to the conduct of a great strike for any long period, and are the manifestations of aroused human passion and class hatred. No one would question the use of a revolver in the hands of a husband defending his wife and children and home from the violation of its sanctity by outlaws, but most of us would condemn the employment of the same weapon in the hands of the outlaws for the accomplishment of their designs. Yet the weapon in both cases is a revolver. So it is with the strike, it is simply a weapon for the attaining of certain well-defined ends. In the hands of men defending their standard of living from the cupidity and inhumanity of particular members of the employing class, the strike is of the very greatest social value. But like the revolver, it can be misused, as in the case of self-seeking individuals masquerading under trade-union principles, but because of that misuse the weapon should not be condemned. It is no more possible for the trade union to prevent the strike from falling into the hands of those who misuse it, than it is for the law to prevent revolvers from coming into the possession of outlaws. The strike has per-

¹⁶Adapted from *The Coal-Mine Workers*, pp. 154-58. Copyright by Longmans, Green & Co., 1905.

formed and will continue to perform a most useful function in the progress of the trade-union movement, and consequently in the onward march of American civilization.

It is true that the course of the labor movement has been marked by the taking of human life and the destruction of property, just as has been the case in the creation of the state and the establishment of the church. The why and the wherefore are easily to be explained in the theory of the adjustment of the principles of new institutions to those created for society by older established ones. This is not said as an apology for the taking of human life in strikes. No one regrets this manifestation of the progress of the trade union more than does the writer, and yet if he had to choose between preserving the lives that have been so lost and retaining the trade-union as an institution, it would not be in favor of the former. This decision would be made in the firm belief that in the attainment of its objects—in throwing more safeguards around the workingman, especially in hazardous employments, in securing better sanitary arrangements in factories and mills, in preventing the employment of children at tender ages, in securing higher wages, in reducing the hours of employment, in raising the standard of living, and in innumerable other ways—in these directions the trade-union is saving for society more lives than have been taken in all the industrial conflicts of which history gives any record.

The strike justifies itself either as a weapon of offense or defense in the protection, as a last recourse, of the standard of living of the American workingman. It is, economically, simply the refusal of a number of workmen, usually organized in an association, to sell their labor for less than a stipulated price or to work under other than specified conditions of employment, coupled with the refusal of the purchaser of that labor—the employer—to accede to the demands.

295. The Striker and the Worker¹⁷

BY SOLON LAUER

I am perfectly willing that you should quit your job, whenever you do not like it. You may quit individually, or you may all quit by agreement. It may cause your employers and us, the public, much inconvenience and expense; but I do not see how we can refuse you that right if you choose to exercise it.

But there your rights cease. If, now, your employers can find other men to take your places, why shall they not do so? Have not

¹⁷From *Social Laws*, pp. 189-90. Published by the Nike Publishing Co., 1901.

these men as good a right to work as you have to refuse to work? And will you march upon them with stones and clubs, and assault them with dynamite, in order that you may carry your point with your employers? When you play the dog in the manger, my brothers, there is nothing for it but to beat you into submission. Eternal justice, seated calm and impassive above all our petty quarrels, demands it. If the machinery of justice be not wholly wrecked and ruined here below, it must be set in motion against your selfish plot.

This is not *my* affair. I can get on without your cars. Legs were before electrics. If there were nothing but my interests involved, or those of my neighbors, you and your employer should sit growling at one another, or fly at each other's throat, until one or other were wholly vanquished and demolished. But there are the rights of man to be considered; yea, the rights of the workingman, which ought to be most dear to *your* hearts. You do not want these jobs on the present terms. These men *do* want them, having until now none at all, or worse ones. Shall their rights be ignored and violated, that you may carry your point?

296. Wanted—Jobs Breaking Strikes¹⁸

We break strikes—also handle labor troubles in all their phases. We are prepared to place secret operatives who are skilled mechanics in any shop, mill or factory, to discover whether organization is being done, material wasted or stolen, negligence on the part of employees, etc. etc. . . . We guard property during strikes, employ non-union men to fill the places of strikers, fit up and maintain boarding-houses for them, etc. Branches in all parts of the country. Write for references and terms. The Joy Detective Agency, Incorporated, Cleveland, Ohio.

297. The Efficacy of Secret Service¹⁹

Secret service properly applied with the right men correctly placed can be made extremely profitable when conditions are studied and co-operation given. Such service is our specialty, and for that reason *we maintain practical men of all trades and occupations, both union and non-union*. In their daily reports they suggest improvements and new ideas; *also detail the agitating, dishonest, non-producing, and retarding conditions*.

¹⁸Adapted from an advertisement appearing in *American Industries*, August 15, 1907.

¹⁹This letter is alleged to have been sent out by the William J. Burns Detective Agency. Quoted from Laidler, *Boycotts and the Labor Struggle*, p. 295.

Our operative, when engaged by you, is, to everyone but yourself, merely an employee in your establishment, and whatever he receives as wages is credited as part payment for his detective service. Daily typewritten reports are mailed to our clients. These operatives are continually under direct supervision of the management of this agency.

Within the heart of your business is where we operate, down in the dark corners, and in out-of-the-way places that cannot be seen from your office or through your superintendent or foreman.

If it is of interest to you to know today what occurred in your plant yesterday, and be in a position to correct these faults tomorrow, we would be pleased to take the matter up with you further, and respectfully ask an interview for one of our representatives.

298. The Boycott of the Butterick Company²⁰

BY A. J. PORTENAR

It was my fortune to take a very active part in the boycott instituted against the products of the Butterick Company by Typographical Union No. 6 in 1906, and later carried on by the International Typographical Union. This boycott was, I verily believe, better organized, more determined, and more damaging to the parties it was aimed at than any other I have knowledge of, not excepting that against the Buck Stove and Range Company, which is more widely known only because of the adventitious circumstances that brought the highest officials of the American Federation of Labor into court. Not only in the United States and Canada, but in Cuba, Germany, and Australia, the International Typographical Union cut into the sales and captured the customers of the Butterick Company. Wherever a typographical union was organized, there, in greater or less degree, the boycott was pushed. The expected court proceedings were in evidence at all times. There were arrests, injunctions, actions for criminal contempt. In short I doubt if a more thorough trial of the efficiency of the boycott has ever been made.

What about results? That the Butterick people were considerably damaged they themselves admitted. Eventually the Butterick house was unionized again, but it is not possible for us to say to what extent the boycott was responsible for that consummation. It is within my knowledge, however, that it had been decreasing in intensity for two years before an agreement with the company was reached, in

²⁰Adapted from *Organized Labor*, pp. 90-92. Copyright by the Macmillan Co., 1912.

1911, and that at the time of the settlement the boycott was practically dormant.

I was very active in this matter, and from the experience thus gained I have reached definite conclusions. We expended a large amount of money; how large I do not know. There was a continuous distribution of printed matter and of comparatively expensive novelties bearing appropriate inscriptions. There were speakers sent to tour the country. There was an organizer whose sole duty it was to further the boycott. There was a prominent lawyer engaged by the year. So far as money could compass our object, we were not niggardly. But money is only one of the essential factors a union needs in the conduct of an affair of this kind. Far more than money, it must have the enthusiastic devotion of its members to the continuous, laborious, and unpleasant work needful to make the expenditure of money effective. This, with a few exceptions, I found it impossible to get. Even these few, in the course of time, finding themselves unsupported by the great majority, began to get lukewarm, and at last ceased to labor in a field, so vast and so deserted. It was not that we had no success; the Butterick Company is the best witness to the contrary. But it is scarcely believable how unremittingly we had to labor to save what we had done one day from becoming useless the next. This fact eventually led to the abandonment of the boycott and the slow recovery by the Butterick Company of the ground it had lost. Therefore my opinion is that no boycott can completely and permanently accomplish the result sought, and very few will do nearly so much in that direction as the one here spoken of, which finally became a failure.

299. Ostracism as an Industrial Weapon²¹

BY FRANK JULIAN WARNE

In controlling the ordinary supply of labor in the industry, committees of union men visit personally every man employed who has not already been captured by the organizers, and his position is definitely ascertained. This is one of the most important uses of picketing, by means of which men are met on their way to and from work. To the employees continuing at work the pickets at first have recourse to the powers of friendly and peaceable persuasion, but if these fail to induce the men to join the union, or, if not this, at least to remain away from the work, then upon the non-union men are

²¹Adapted from *The Coal-Mine Workers*, pp. 160-65. Copyright by Longmans, Green & Co., 1905.

brought to bear social forces verging upon lawlessness, and overstepping the safeguards the state has thrown around individual liberty, which only a strong public sympathy with the cause of the union will support. The most important of these social forces is ostracism.

Ostracism is a stronger social force in maintaining a high standard of personal conduct than most of us realize. It means banishment or exclusion from social intercourse or favor, and is usually employed by a particular group against members of its own class or craft. Its most effective weapon is some term of reproach coined for the purpose. Lawyers, for example, who do not come up to the standard set for that profession by its dominant group, are ostracized and termed "shysters." So it is with the medical profession; physicians engaged in questionable practices which the dominant group denounce are ostracized by the more reputable practitioners with the reproachful term "quack." The same social force is at work among the industrial classes. Union men set a standard as to wages and conditions of employment in a particular industry, and those workmen who fall below that measurement, in offering their labor for a less price, are ostracized and denounced as "scabs." Whether the group be doctors or lawyers or workmen, whatever it adopts as the standard of measuring conduct along particular lines is sooner or later taken up by the broader social grouping in the community and accepted as its standard of judgment. This is particularly and strikingly true of a community closely identified with an industry the livelihood of whose members depends upon the industry's activities and in which a dominant group (usually members of a trade-union) creates the industrial standard. This explains the attitude of hostility an industrial community exercises towards the "scab." It explains, also, perhaps, how men far removed from the influence of the working classes can look upon the "scab" as a hero.

The social force of ostracism, put into operation by the working of the trade-unions, is directed, and particularly so in strike times, not only against the "scab" himself, but also along all those channels of social relations affecting him and which might have influence upon him in bringing about action conformable to the standard of the dominant group. The strength of this weapon in the strike of the anthracite-mine employees in 1902 caused union men and their families to refuse to associate with the workman who continued his employment in the mines; it expelled a prominent and otherwise highly respected citizen from a benevolent society which had for its object the assisting of sick members and the defraying of a part of the funeral expenses of those who died, and of which he had been

a member in good standing for more than twenty-seven years; it caused children of striking mine workers not only to refuse to attend school of a woman teacher whose aged father was a watchman at one of the mines, but they also demanded that she be discharged. Children of union miners would not attend Sunday-school with their former playmates whose relatives continued at work; members of the Lacemakers' Union employed at a silk-mill refused to work alongside girls whose fathers and brothers would not strike; clerks were dismissed from stores and business establishments because they were related to men who continued at work in the mines; even promises of marriage were broken through relatives of one or the other of the contracting parties being non-union workers. The "scab" was not infrequently held up in public scorn and ridicule by the publication of his name in the "unfair list" of the newspapers in the mining towns as being "unfit to associate with honorable men;" he was represented by name on signs attached to effigies dangling from electric light, telegraph, and telephone poles and wires and from trees in front of his home and along the highways and streets; a grave in his yard with his name placed upon the board at the head to represent a tombstone not infrequently confronted him; the sign of "the skull and cross-bones" was painted on his house, and in innumerable other ways, conceivable only by workmen whose imaginative faculties have been aroused by the desire for persecution of others who oppose a cause which is so vital to their home and family, was created a public sentiment against the non-union employee.

300. The Scab²²

BY DYER D. LUM

The non-unionist is but an indirect enemy; in withholding his aid he by so much weakens the common line of defense. Though often his acts may directly, without conscious effort, aid the enemy, he need not be a traitor to his fellow toilers. Every great movement has some object of superlative loathing; its Judas Iscariots, its Benedict Arnolds, its Pigotts, its paid spies and informers, its Pinkerton thugs—men deaf to all honor, blind to mutual interest, dead to all but the miserable cravings of their shriveled souls. In the industrial conflict the instinct of workers has significantly termed its type of this species "scab!" Loud have been the appeals for sympathy with the workman who falls out from the line to better his condition, or relieve the distress of a starving wife and family. But

²²Adapted from *Philosophy of Trade Unions*, pp. 13-14. Published by American Federation of Labor, 1892.

to prevent just such contingencies is the mission of the union. One who is forced to the necessity of wage labor and refuses to share the common danger, but either openly or stealthily goes over to the enemy to accept his terms, is a deserter. By his act he has sundered the social bonds of mutual interest which united him to us, has served notice that he asks no aid, expects no sympathy, seeks no quarter. *At his acted word we take him.*

The time has passed for circumlocation in handling this subject: If trade-unionism has a logical ground for existence, if organized resistance is preferable to slavish submission, if the social ties which unite us in mutual alliance are of higher validity than the selfish cravings of an unsocial nature, the relation between the trade-union and its sycophantic enemy, the "scab," is that existing between the patriot and the paid informer. No sentimentalism will attenuate, no olive branch will be extended; no tears will be shed over whatever misfortune befalls him, nor aught but utter loathing be felt for him. He stands forth by his own act recreant to duty. He is bankrupt in honor, infidel to faith, destitute of social sympathy, and a self-elected target. We here but express clearly what workingmen feel in every industrial crisis, and we deliberately express it that at *all* times such men be regarded as possible "informers" and traitors.

But let us hear his defense. We are told that trade-unionism is an encroachment upon individual right, that the toiler, whether union or non-union, has the privilege to sell his labor as best suits himself. To this we reply: (1) The toiler does not enter the market under equal conditions. (2) Monopoly over land, the source of wealth, and over exchange, its medium of distribution, gives to the capitalist an economic advantage in the struggle. (3) The legalization of privilege forces upon the unprivileged the necessity of combination in order to sustain themselves. (4) The logic of events has settled the line of action; it lies neither in the prayer-meeting nor in the polling-booth, but in mutual accord of action and determined self-help.

Industrial combination, under such circumstances, is as necessary for the exploited toiler, as military organization for an invaded people. We *are* in a state of industrial war. Every appeal to legislation to do aught but *undo* is as futile as sending a flag of truce to the enemy for munitions of war. The growth of solidarity evidenced in wider federation, in leading the broader views of the issue, and deeper sense of interrelations, can but intensify this feeling toward the "scab."

Unions have already demonstrated their power to rise above the subsistence level, where otherwise they would be. It is our duty, not only to ourselves, but to our families, to enlarge the scope of union among our fellow craftsmen. Our task is to be true to the need of the hour in order to be the better fitted for the unknown needs of the struggle tomorrow. The lines are being closer drawn, and the exigencies of the situation demand concert of action, both against the combined enemy and the traitor who would betray our cause by a shot from the rear. In such a struggle for a higher civilization—a struggle forced upon us—the industrial recreant is a social traitor.

Out of conflict all progress has come. The history of the labor movement, its increasing self-reliance, its growing indifference to "labor politicians," its development of sturdy independence and manhood, all alike indicate change in its methods among future possibilities. But with all this, and its accompanying wider sympathy and extension of mutual ties, the feeling of loathing toward the "scab" has intensified.

To sum up, to assert egoism against mutual interests is unsocial and hence a denial of the mutual basis upon which equitable relations alone can exist. Thus the "scab" is not merely unsocial, but by his acted word virtually places himself with the industrial invaders and becomes an enemy. Equal freedom cannot be strained to mean a denial of mutual interests. Social evolution is not a mere theory, but a record of facts, and no fact is more strongly brought out than that progress has resulted only in so far as mutual interests have been recognized. We do not *institute* them, they *compel* us.

Therefore, primarily as human beings, become so by social evolution, and by the social environment in which the present struggle is conditioned, and recognizing as the goal of industrial advance the mutuality of interests involved in the assertion of equal freedom, in strict accord with all sociological deductions, and with the utmost submission to the higher law permeating social growth, we reverently raise our hats to say prayerfully: "To hell with the 'scab'!"

E. UNIONISM IN WAR TIME

301. The Challenge to American Labor

a) *Great Britain*²⁸

The British trade-union movement, having first decided to support the war, immediately applied itself to the ways and means by which

²⁸A statement by Hon. James H. Thomas, general secretary, National Union of Railway Men of Great Britain and Ireland.

it could best do it, and the first thing we did was to declare there should exist during the period of the war an industrial truce. That is to say, that with the war raging as it was it would be madness and folly to have side by side with that war raging an industrial war in our own country, and we entered into an agreement with the employers whereby they, on the one hand, agreed that they would not interfere with or reduce the conditions prevalent at the time, in return for which we, on the other hand, agreed that we should not attempt to set up any new standard conditions, and that truce was practically agreed to by the whole of the organized workers of Great Britain.

b) *France*²⁴

To do a good day's work is no longer enough; one must do all there is to be done. The worker's effort is on the same plane of necessity as military effort. During the Battle of Verdun, at a certain forge for "155" shells, the man's day passed at one bound to eighteen hours, and to such speed that the proportion of sick and exhausted reached 11 per cent. The soul of his labor lifts the workman above fatigue, and social equity is dominated by the duty to keep for France her just place in the world. France has been constrained to an experience which has revealed her to herself. She will know how to make her force endure by maintaining in industry the power invented for battle.

c) *Italy*²⁵

The response of Italian labor, both field and factory, to the emergency of war and the necessity of industrial mobilization has been splendid. Our munition works and transportation systems, for example, are all under full military discipline and every man employed in such an industry is rated as a soldier. But he gets the pay of a mechanic that prevails in that industry. It seems unjust, I know, that a soldier whose work it is to fight at the front receives about five cents a day, while the soldier whose training fits him for shop work may get five dollars, but there seems no other way. We have had no strikes, no labor troubles of any sort, since the war began, and we do not fear any.

302. A Declaration of Principles²⁶

The American Alliance for Labor and Democracy in its first national conference declares its unswerving adherence to the cause of

²⁴A statement by the *New Republic*, July 21, 1917.

²⁵A statement by Dr. Francesco Saverio Nitti.

²⁶Adopted unanimously by the American Alliance for Labor and Democracy at its first national conference at Minneapolis, September 5-7, 1917.

democracy, now assailed by the forces of autocracy and militarism. As labor unionists, social reformers, and Socialists we pledge our loyal support and service to the United States Government and its Allies in the present world-conflict.

We declare that the one overshadowing issue is the preservation of democracy. Either democracy will endure and men will be free, or autocracy will triumph and the race will be enslaved. On this prime issue we take our stand. We declare that the great war must be fought to a decisive result; that until autocracy is defeated there can be no hope of an honorable peace, and that to compromise the issue is only to sow the seed for bloodier and more devastating wars in the future.

We declare our abhorrence of war and our devotion to the cause of peace. But we recognize that there are evils greater and more intolerable than those of war. We declare that war waged for evil ends must be met by war waged for altruistic ends. A peace bought by the surrender of every principle vital to democracy is no peace, but shameful servility. Our nation has not sought this war. As a people, we desired peace for its own sake, and we held fast to our traditional principle of keeping aloof from the political affairs of Europe. Our President, with a forbearance and a patience which some of us thought extreme, exhausted every honorable means in behalf of peace; and the declaration of war came only after many months of futile efforts to avoid a conflict. This war, so relentlessly forced upon us, must now be made the means of insuring a world-wide and permanent peace.

We declare that in this crisis the one fundamental need is unity of action. The successful prosecution of the war requires that all the energies of our people be concentrated to a common purpose. After more than two years of exhaustive deliberation, in which every phase of our relation to the great world-problem has been thoroughly debated, the constitutional representatives of the people declared the nation's will. Loyalty to the people demands that all acquiesce in that decision and render the government every service in their power.

We strongly denounce the words and actions of those enemies of the Republic who, falsely assuming to speak in the name of labor and democracy, are now ceaselessly striving to obstruct the operations of the government's purposes. In traducing the character of the President and of his advisers, in stealthily attempting to incite sedition, and in openly or impliedly counseling resistance to the enforcement of laws enacted for the national defense, they abuse the rights of free speech, free assemblage, and a free press. In the name of liberty they encourage anarchy, in the name of democracy they strive

to defeat the will of the majority, and in the name of humanity they render every possible comfort to the brutal Prussian autocracy. If the sinister counsels of these persons were followed, labor would be reduced to subjection and democracy would be obliterated from the earth. We declare that the betrayal of one's fellow-workers during a strike finds its exact counterpart in the betrayal of one's fellow-citizens in time of war, and that both are offenses which deserve the detestation of mankind.

This war, which on our part is waged for the preservation of democracy, has already set in motion vast forces for the furtherance and extension of democracy. Revolutionary changes have been made—changes which reveal the power and determination of a democratic people to control its own economic life for the common good. We declare that peace shall not be another name for reaction, but that the gains thus far made for labor should be maintained in perpetuity.

We declare that industrial enterprises should be the servants and not the masters of the people; and that in cases where differences between owners and workers threaten a discontinuance of production necessary for the war, the government should assume complete control of such industries and operate them for the exclusive benefit of the people.

We declare that the government should take prompt action with regard to the speculative interests which, especially during the war, have done so much to enhance prices of the necessities of life. To increase the food supply and to lower prices the government should commandeer all land necessary for public purposes and should tax idle land in private possession on its full rental value.

We declare that the right of the wage-earners to collective action is the fundamental condition which gives opportunity for economic freedom and makes possible the betterment of the workers' condition. The recognition already given to this principle should be extended and made the basis of all relationships, direct or indirect, between the government and wage-earners engaged in activities connected with the war.

We declare that the wage-earners must have a voice in determining the conditions under which they are to give service, and that the voluntary institutions that have organized the industrial, commercial, and transportation workers in time of peace shall be unhampered in the exercise of their recognized function during the war—that labor shall be adequately represented in all the councils authorized to conduct the war and in the commission selected to negotiate terms of peace.

Believing that the material interests of the nation's soldiers and sailors and of their dependents should be withdrawn from the realm of charity and chance, and that health and life should be fully insured, we indorse the soldiers and sailors' insurance bill now before Congress.

We declare for universal equal suffrage.

Fully realizing that the perpetuity of democratic institutions is involved in freedom of speech, of the press, and of assemblage, we declare that these essential rights must be guarded with zealous care lest all other rights be lost. We declare, however, that where expressions are used which are obstructive to the government in its conduct of the war, or are clearly capable of giving aid or comfort to the nation's foes, the offenders should be reprimanded by the constituted authorities in accordance with established law.

Inspired by the ideals of liberty and justice herein declared as a fundamental basis for national policies the American Alliance for Labor and Democracy makes its appeal to the working men and women of the United States, and calls upon them to unite in unanimous support of the President and the nation for the prosecution of the war and the preservation of democracy.

303. A War-Time Labor Policy²⁷

The commission of representatives of employers and workers, selected in accord with the suggestion of your letter of January 28, 1918, to aid in the formulation, in the present emergency, of a national labor program, present to you, as a result of their conferences, the following:

(a) That there be created, for the period of the war, a National War Labor Board of the same number and to be selected in the same manner and by the same agencies as the commission making this recommendation.

(b) That the functions and powers of the National Board shall be as follows:

1. To bring about a settlement, by mediation and conciliation, of every controversy arising between employers and workers in the field of production necessary for the effective conduct of the war.

2. To do the same thing in similar controversies in other fields of national activity, delays and obstructions in which may, in the opinion of the National Board, affect detrimentally such production.

²⁷A report made to the Secretary of Labor, March 29, 1918, by the War Labor Conference Board.

ED. NOTE.—This is the basis of our national labor policy and is comparable "so far as American conditions make it comparable" with the English Treasury Agreement, later embodied in the Munitions Bill.

3. To provide such machinery by direct appointment, or otherwise, for selection of committees or boards to sit in various parts of the country where controversies arise, to secure settlement by local mediation and conciliation.

4. To summon the parties to the controversy for hearing and action by the National Board in case of failure to secure settlement by local mediation and conciliation.

(c) If the sincere and determined effort of the National Board shall fail to bring about a voluntary settlement, and the members of the Board shall be unable unanimously to agree upon a decision, then and in that case, and only as a last resort, an umpire appointed in the manner provided in the next paragraph shall hear and finally decide the controversy under simple rules of procedure prescribed by the National Board.

(d) The members of the National Board shall choose the umpire by unanimous vote. Failing such choice, the name of the umpire shall be drawn by lot from a list of ten suitable and disinterested persons to be nominated for the purpose by the President of the United States.

(e) The National Board shall hold its regular meetings in the city of Washington, with power to meet at any other place convenient for the Board and the occasion.

(f) The National Board may alter its methods and practice in settlement of controversies hereunder, from time to time as experience may suggest.

(g) The National Board shall refuse to take cognizance of a controversy between employer and workers in any field of industrial or other activity where there is by agreement or federal law a means of settlement which has not been invoked.

(h) The place of each member of the National Board unavoidably detained from attending one or more of its sessions may be filled by a substitute to be named by such member as his regular substitute. The substitute shall have the same representative character as his principal.

(i) The National Board shall have power to appoint a secretary and to create such other clerical organization under it as may be in its judgment necessary for the discharge of its duties.

(j) The National Board may apply to the Secretary of Labor for authority to use the machinery of the Department in its work of conciliation and mediation.

(k) The action of the National Board may be invoked in respect to controversies within its jurisdiction by the Secretary of Labor or by either side in a controversy or its duly authorized representative.

The Board, after summary consideration, may refuse further hearing if the case is not of such character or importance as to justify it.

(l) In the appointment of committees of its own members to act for the Board in general or local matters, and in the creation of local committees, the employers and the workers shall be equally represented.

(m) The representatives of the public on the Board shall preside alternately at successive sessions of the Board or as agreed upon.

(n) The Board in its mediating and conciliatory action, and the umpire in his consideration of a controversy, shall be governed by the following principles:

PRINCIPLES AND POLICIES TO GOVERN RELATIONS BETWEEN WORKERS
AND EMPLOYERS IN WAR INDUSTRIES FOR THE
DURATION OF THE WAR

There should be no strikes or lockouts during the war.

Right to organize.—1. The right of workers to organize in trade-unions and to bargain collectively, through chosen representatives, is recognized and affirmed. This right shall not be denied, abridged, or interfered with by the employers in any manner whatsoever.

2. The right of employers to organize in associations or groups and to bargain collectively, through chosen representatives, is recognized and affirmed. This right shall not be denied, abridged, or interfered with by the workers in any manner whatsoever.

3. Employers should not discharge workers for membership in trade-unions, nor for legitimate trade-union activities.

4. The workers, in the exercise of their right to organize, shall not use coercive measures of any kind to induce persons to join their organizations, nor to induce employers to bargain or deal therewith.

Existing conditions.—1. In establishments where the union shop exists the same shall continue and the union standards as to wages, hours of labor, and other conditions of employment shall be maintained.

2. In establishments where union and non-union men and women now work together, and the employer meets only with employees or representatives engaged in said establishments, the continuance of such condition shall not be deemed a grievance. This declaration, however, is not intended in any manner to deny the right, or discourage the practice, of the formation of labor unions, or the joining of the same by the workers in said establishments, as guaranteed in the last paragraph, nor to prevent the War Labor Board from urging, or any umpire from granting, under the machinery herein provided,

improvement of their situation in the matter of wages, hours of labor, or other conditions, as shall be found desirable from time to time.

3. Established safeguards and regulations for the protection of the health and safety of workers shall not be relaxed.

Women in industry.—If it shall become necessary to employ women on work ordinarily performed by men, they must be allowed equal pay for equal work and must not be allotted tasks disproportionate to their strength.

Hours of labor.—The basic eight-hour day is recognized as applying in all cases in which existing law requires it. In all other cases the question of hours of labor shall be settled with due regard to governmental necessities and the welfare, health, and proper comfort of the workers.

Maximum production —The maximum production of all war industries should be maintained and methods of work and operation on the part of employers or workers which operate to delay or limit production, or which have a tendency to increase artificially the cost thereof, should be discouraged.

Mobilization of labor.—For the purpose of mobilizing the labor supply with a view to its rapid and effective distribution, a permanent list of the number of skilled and other workers available in different parts of the nation shall be kept on file by the Department of Labor, the information to be constantly furnished, (1) by trade-unions; (2) by state employment bureaus and federal agencies of like character; (3) by the managers and operators of industrial establishments throughout the country. These agencies should be given opportunity to aid in the distribution of labor, as necessity demands.

Custom of localities.—In fixing wages, hours, and conditions of labor regard should always be had to the labor standards, wage scales, and other conditions prevailing in the localities affected.

The living wage.—1. The right of all workers, including common laborers, to a living wage is hereby declared.

2. In fixing wages, minimum rates of pay shall be established which will insure the subsistence of the worker and his family in health and reasonable comfort.

F. WOMAN'S INVASION

304. Replacement of Men by Women²⁸

The phrase "women in industry" was used so often during the war that it has become the part of wisdom to remind ourselves that

²⁸Adapted from "The Industrial Replacement of Men by Women," which is *Bulletin No. 93*, issued by the Department of Labor of the State of New York (1919).

women are not new to industry. Women have always been an integral part of the factory system. Before the war 300,000 women turned the wheels of production in the state of New York. Some industries are known as women's industries because their hands hold the tools and operate the machines. Women are the backbone of garment-making, knit goods manufacture, candy-making, and the paper trades. They fill the ranks of the unskilled and semi-skilled in large plants with standardized products and in small low-grade workshops in large cities. Yet their coming into industry in larger numbers during the war caused employers, government, and brother-workers alike to recognize a new phase in industrial development.

As matters stand to date the facts concerning the capacity of women who have replaced men are not known. We know only that they have taken men's places during a period of great stress. The significant questions concerning their precise degree of success on certain processes in terms of production and steadiness remain to be answered. The scientific apportionment of women's wages in relation to their output and the wages of men that they replaced remains to be made. The effect of the unrestricted introduction of unskilled labor into the ranks of the skilled has not been estimated. The possibility of women's permanence in their new work has not yet been considered nor its causes analyzed. Administrative problems in shop arrangement and trade-union policy limiting the success of women have not been solved.

The extent and character of the replacement of men by women was governed in every country by the length of the war period. This indicates the difference in replacement as it occurred in Great Britain and in this country. In both there was the same sudden demand for enormous quantities of war materials complicated by the departure of skilled male labor to war. Great Britain had four years in which to solve the problem and this country only nineteen months. Great Britain had time in which to build new factories, planned and equipped for women, to shift women workers from plant to plant to obtain for them the most suitable work; and to build machinery and rearrange processes so that the most productive combination of male and female labor could be made. In the United States, on the other hand, this same demand pushed women into the plants and into men's places without any changes in machines or rearrangement in process.

This difference between the experience of Great Britain and the United States illustrates the distinction between two words which the war has brought into use. The words are "replacement" and "dilution." Both occur in industry as the result of an emergency

when an increase in the existing labor supply must be instantly secured. Dilution implies the thinning out or spreading of the functions of skilled workmen among those that are less skilled with or without division of process or change in machine. Replacement, on the other hand, is a specific form of dilution in which the less skilled, usually a woman, takes the place of the more skilled, usually a man, without division of process or change of machine.

In New York state dilution has occurred in its elementary form of replacement. Where exceptions to this rule have taken place they are instructive of what would have been the case had we remained at war a longer time, or what may be the case in after years when women are more widely used industrially. Division of process has taken place in only a few plants, through substitution of power machinery for tools, and the use of porters to do heavy lifting. Where such changes are made, the result is not an increase in the number of employees, but merely a higher degree of specialization.

The amount and character of replacement was dictated not only by the pressure of war contracts but also by local plant and labor conditions. At first women filled those vacancies where the work was light, less skilled and repetitive. Heavy or skilled work was attempted only after a considerable time had elapsed, or in response to unusual demands. Those communities have been most successful in replacement in which the principal industry has offered work of a light nature and was one in which untrained women could be easily absorbed. Such a town was Rochester, where in optical and instrument-making women could perform light machine and bench work after a minimum of training; or Schenectady, where much machine work on small electrical fittings had always been done. Replacement has come easier to employers and women in those towns where women's industries had been located and some body of knowledge concerning the methods of handling the problem was already in existence.

The following typical instances indicate the extent and variety of tasks upon which men have been replaced by women: Turning, sawing, and coloring buttons; feeding paper; engraving; assembling, inspecting, packing, and shipping metal products; operating punch presses, drills, lathes, milling machines; screw machines; finishing and cutting leather; operating sewing machines; assembling electrical supplies; packing cartons of food products; operating diamond drills and polishing and grinding lenses; repairing watches; acting as laboratory assistants in chemical industries; rethreading bolts and nuts; operating cranes and hammers in railroad repair shops; weighing, examining, and shipping ammunition; upholstering vehicles;

and installing telephones. These instances could be multiplied many times over.

Most of the processes undertaken by the first women supplanting men required no previous industrial experience. As time went on training schools became necessary adjuncts to the large plants. The organization and theory of industrial education upon which these schools were founded is an important topic of current discussion. During the war their aim was to turn out specialists as quickly as possible. Since the war the opinion has been growing that women showing ability should be trained for the more skilled trades. In view of the novel questions presented a proper scheme of industrial training can be established only by a process of trial and error in each trade. Yet it is clear that if women are to enter machine trades they must be given special training to make up for the advantage which the boy has in having learned to handle tools while a child.

The whole story of women's wage status in patriotic service is told when two comparisons are made: (1) The comparison of her flat wage rate with the government's estimate of the cost of subsistence for a woman who has no one but herself to support; and (2) the comparison of her wage rate with the rate received by the male worker she replaces.

A glance at the flat wage rate received by women indicates that war has not improved women's wage status as much as had been hoped. The newspapers have turned the limelight of publicity upon the exceptional women who have earned from \$20 to \$25 per week. They have made no mention of the army of munition workers, machine-gun makers, and the undramatic rank and file in optical and electrical work. These women have made good but their wages do not reflect their success. Two-thirds of the women who replaced men in the state of New York receive less than \$15 a week. Their wages hover around a medium of \$13 a week with a group receiving less than \$12 a week. Although some have bettered themselves, for a great many the war has meant a change of work without an increase in pay.

The wages of the women compared with those of the men they have replaced also afford reason for reflection. Of all women replacing men 9 per cent receive equal pay. It is to be noted, however, that the higher the pay of the man replaced the smaller the chance of the woman replacing him receiving it. The highest paid men received from \$22 to \$35 per week. The women who took their places received from \$10 to \$15 a week. Discrimination begins at nothing and rises to \$19 a week. Over one-half of the women receive \$4 per week or more less than men, 33 per cent receive \$6 per

week or more less, while 3 per cent receive \$10 a week or more less than men.

The opinions of employers about the efficiency of the women replacing men fall into two groups. In the first are those who found women satisfactory—satisfactoriness being defined as a composite quality made up of productive capacity, steadiness, reliability, mechanical aptitude, and all those other characteristics innate and acquired which are considered necessary in the good workman. In the second are those who had dismissed all women replacing men. When a count was made of the employers who claimed that women were so satisfactory that men would not necessarily be reinstated when they were again available, it was found that the total represented 80 per cent of the plants. Eleven employers are emphatic in stating that women in their plants produce more than the men that they replace. Yet in no case does a woman producing more than a man receive as much as a man doing the same work in the same plant.

The replacement of men by women has from the first been a mystery, not only to those who thought they could never do it, but also to those who thought if they could they never would stay with it. The surprise of foremen at women's dexterity and adaptability only equaled their certainty that after the emergency was over the problem of women in men's places would settle itself by their automatic reabsorption into the home. In this simple faith they were joined by trade-unions, who said that women not only would return to their homes, but that they would have to return to their homes. During the war not an employer was to be found who openly contemplated retaining the women he had taken the pains to select and train. The day after the armistice was signed, however, there were unmistakable signs that not only were women to be kept in the places they were filling but they were to be trained to fill others requiring greater skill and initiative.

It is far more difficult to secure a statement from an employer of his reason for retaining women in men's places than for dropping them. His most usual reply is "Why not? They are entirely satisfactory." The underlying reason may or may not come out later in the interview. When it does emerge it requires very little analysis to see that women are staying primarily because they permit manufacture at less cost per unit of production, and with less friction between management and workers. Some women produce more than men at an equal wage; some as much as men at a smaller wage; and some less than men at a wage so much smaller that their employment is still profitable. Women are by habit industrially acquiescent,

pliable, and submissive to routine. They are to a very large degree unorganized. In any case the employers' advantage is secure.

The general attitude of labor men is that if women receive the same wages as men for the same work they will not oppose them, but they will unalterably oppose their entrance into new occupations as underbidders. At first the viewpoint of a great many labor men toward the entrance of women into new occupations was skeptical. It is encouraging to note that now most of them are realizing that women are in the trade to stay and it is necessary therefore to deal with them as fellow-workers, to organize them in their trade-unions. If they succeed, there should be no sex competition and men and women in the trade will work hand in hand for the betterment of the conditions under which they work.

305. The Health of Women in Industry²⁰

BY JANET M. CAMPBELL

The question of the relationship of men's and women's wages is dependent in large measure on the relative health and physical capacity; and physical and industrial efficiency are mutually interdependent and indeed inseparable. The medical issues raised by the inquiry are thus fundamental.

The general conclusions which emerge from this inquiry may be summed up as follows:

1. The average woman is physically weaker than the average man; she cannot compete with him satisfactorily in occupations requiring considerable physical strength, while competition in operations of a less arduous but still exacting character may be detrimental to her health. The second fundamental physiological difference between the man and the woman is the fact of her potential or actual motherhood. This necessity governs to a large extent her industrial power, efficiency, and value. It wholly prevents absolutely equal competition in industry. It cannot be disregarded if women are to be employed under the conditions most appropriate to them not only as individuals but also with a view to the future and well-being of the race.

2. The conditions under which women were employed before the war were not such as to enable them to develop full health and vigor. Low wages, an unsatisfactory dietary, long hours, and lack of exercise in the open air, resulted in physical and industrial inefficiency and

²⁰Adapted from a "memorandum" with the foregoing caption, included in the *Report of the War Cabinet Committee (England) on Women in Industry*, pp. 218, 250-52. The memorandum is dated December 19, 1918.

caused too low a value to be placed upon women's strength and capability.

3. The control of employment under the Factory and Workshop Acts, together with an advance in general sanitation, has done much to ameliorate the conditions of labor, but has not been fully effective.

4. Employment under the conditions existing in the past has probably had, upon the whole, an injurious effect upon the health of women and girls, though it is difficult to disassociate the effect of employment from social conditions generally. Women have suffered from numerous minor ailments, which, though not actually disabling, have resulted in considerable broken time and loss of industrial efficiency. The rise, during the war, of the tuberculosis death-rate among urban women suggests that any considerable increase in the number of women employed and in the period of their employment may, unless conditions of employment are improved, cause the female death-rate to approximate that of the male, a result which could not fail to have a detrimental effect upon national health and efficiency.

5. The effects of employment upon the function of motherhood are not easy to determine with exactitude. The direct result upon the reproductive system is probably largely negligible, except in the case of multifarious women engaged in heavy or fatiguing work. The indirect influence in causing an impairment of the general health is certainly considerable. The effect of the increasing employment of women on the birth-rate has probably been to accelerate somewhat the steady decline which has been observed since 1876. The influence of employment upon the infant mortality rate is not very clear. The regular employment of the mother necessarily deprives her infant of its natural food, which is the greatest safeguard to its healthy growth and development, and also of the careful and constant attention which is so necessary to its successful nurture. On the other hand poverty or an unsanitary environment may have an even more injurious effect than the mother's absence. Indeed, it is significant that the infant mortality rate has shown its most rapid decline in the last decade, during which industrial employment of women has increased.

6. The employment of married women may react directly upon the personal health of the expectant and nursing mother and upon her general physical strength at other times, by imposing a double burden of factory labor and domestic duties, while lack of "mothering" may lead to the moral and physical injury of the children. Employment under suitable conditions is not in itself injurious to pregnant woman, while the money thus earned may enable her to be properly fed, a matter of the highest importance. If the work causes undue fatigue or involves strain or violence it may give rise to gen-

eral or local injury and lead to premature confinement or complications of pregnancy. A woman should not return to work within four weeks after the birth of a child.

7. The results of the employment of women under war conditions have emphasized the importance to health of the good food, clothing, and domestic comfort which can be obtained when the wages represent a reasonably adequate recompense for labor. They have also proved that properly nourished women have a much greater reserve of energy than they have usually been credited with, and that under suitable conditions they can properly and advantageously be employed in more arduous occupations than has been considered desirable in the past. Light, sedentary occupations are not necessarily healthy. The commercial futility of unduly long hours of work and of overtime has been demonstrated repeatedly, together with the benefit to health and to output of shorter hours, of the abolition of work before breakfast, and of properly arranged spells and pauses.

8. Direct supervision of the health of industrial workers was almost nonexistent before the war. Experience of war conditions has emphasized the need for more efficient supervision and for energetic research into the causes of industrial fatigue and the methods of preventing disease directly or indirectly due to occupation. Factory hygiene must become an integral part of the general system of preventive medicine. For this purpose an adequate service of factory medical offices is needed, having no duties of treatment, but charged with the general oversight of factory conditions, hygiene, and health.

306. Will There Be a Sex War in Industry?³⁰

BY MARY STOCKS

The problem is a problem of adjustment; of the distribution of labor, skilled and unskilled, male and female, among the various existing and potential occupations which the return of peace conditions will offer. From the workers' point of view it is predominantly a question of how to stifle the renewed competition which will necessarily prejudice the bargaining power of labor in the coming scramble for the produce of industry. It has special reference to the outstanding problem of how to deal with the army of women workers which war conditions have called from home duties or unenterprising idleness, as the case may be. It is here that we see looming ahead of us the horrible possibility of something like an industrial sex war, in

³⁰Adapted from "The Future of the Woman War Worker," *The Athenaeum*, No. 4625, pp. 21-23. Copyright, 1918.

which the men's trade-unions, and no doubt, for sentimental reasons, a large section of the public will be on one side, and the industrial women, supported by the employers for purposes of their own, on the other.

Broadly, the position of the women is this: In normal times they have had, for various reasons, to put up with a wage-level considerably below that of the corresponding class of male wage earner. Among these reasons we may include their inferior physical capacity in a number of occupations; their lower subsistence-level, resulting from the general absence of dependent families and the frequent existence of home resources independent of their industrial earnings; the temporary nature of their industrial careers, resulting from the fact that they frequently regard industry as a stop-gap pending marriage; and the consequential absence of vital and lifelong interest in industrial conditions which is the moving spirit of an effective trade unionism. These are among the interacting causes of the inferiority of women's earnings; but the widest and most profound cause lies in the fact that women, though of course constituting a minority in the industrial world, are nevertheless competing for employment in such a comparatively restricted area that the competition among them is more intense than it is among male workers. To put it metaphorically, the volume of the flood is less, but its channel is relatively narrower; therefore its action is more destructive.

When we begin to inquire into the reasons for this restriction we find ourselves lost in a perfect maze of speculations. To begin with, obviously the genuine physical limitations of women must necessarily impose a natural barrier to a whole host of occupations. Supposed physical limitations not improbably add to the number. In addition there are less definite social causes, such as differential factory legislation, the inconveniences of a mixed staff, and the liability of women to get married, which must account for a considerable restriction of the demand for their labor. Behind all this brood many centuries of tradition, custom, prejudice, and sex jealousy.

With the development of war conditions, however, some very profound modifications have occurred in the conditions sketched above. In the first place, the urgent national necessity of replacing the large numbers of men withdrawn from the labor market has accounted for the dissolution of much irrational prejudice against women's work, and broken down innumerable barriers of custom and tradition. Under the hard schooling of necessity the economic world

has learned that much of the physical and mental incapacity, much of the administrative inconvenience, of women workers has disappeared under the test of actual practice. In the second place, the heavy war mortality among young men must mean that, for a generation at least, large numbers of young women will have to find in the world of industry the main interest of their lives, though how far this fact will affect their industrial psychology it is, of course, impossible to estimate.

When we come, therefore, to re-examine the old causes of inferiority, we find that while many of them remain presumably unaltered, one or two of them have been profoundly affected. First and foremost the field in which women are competing for employment has been almost indefinitely extended; and it has been so extended as to include grades of comparatively well-paid work hitherto closed. Women workers remain, for the most part, unorganized, an easy prey to industrial exploitation; but given the will to combine and the power to bargain collectively, circumstances point to the possibility of better conditions for women workers in the near future. But of course all this presupposes the continuance of the new opportunities; takes for granted that what is now open will necessarily remain open. Will it? Certainly much of it will, for there is no mending of broken traditions and no re-erecting of shattered illusions; but there is such a possibility as the rebuilding of industrial or professional barriers for reasons other than the actual capacity of women to do the work; and that brings us back to our opening problem, the readjustment of industrial conditions when a demobilized army returns to the labor market.

It must be remembered that much of the old exclusion of women from skilled industrial processes was the result of trade-union regulations—agreements forced upon the employer by organized male labor. Women were regarded, and not without good reason, as undesirable fellow-workers where a comparatively high standard of life was to be maintained. When the exigencies of war made it necessary for Mr. Lloyd George to promote the utilization of female labor in skilled industry, he found himself up against one of the most cherished and hard-earned privileges of the British trade unionism, and, as is well known, was only able to obtain the suspension of that privilege on the definite understanding that, after the return of peace, the said trade union regulations should be fully and legally re-established. Although in the meanwhile industrial processes have under-

gone such revolutionary changes of mechanism and organization as to render the literal fulfilment of that pledge appallingly difficult, if not practically impossible, yet labor holds, as it were, an I. O. U. against the government, and will be in a position, when the time comes, to demand its discharge in the spirit, if not in the letter. The spirit at the present time, if straws show the way of the wind, is undoubtedly an exclusive one as far as the woman war worker is concerned. Nor is the problem confined to those occupations where definite trade-union regulations have been suspended. The woman bank clerk, like the woman engineer, will, in days to come, find herself confronted by a male predecessor whose standards of remuneration, and probably of professional efficiency, are higher than her own.

Given the above-described circumstances, the situation to be avoided at all costs is one in which the trade unions will be fighting on one side for exclusion, women on the other for employment; the latter backed whole-heartedly by the employers in search of cheap and comparatively docile labor power, the former backed half-heartedly by the government in pursuance of the pledges exacted in the hour of need. The victory of either side will spell disaster. If the exclusive principle is carried through, women workers will find themselves at the mercy of trade-union regulations for the first time possessing the force of law, and flung back into the old degraded and inadequate industrial channels, where they will compete all the more destructively by reason of their swollen numbers. They will suffer, and their suffering will generate bitterness at a time when all the good will in the world will be necessary to face an uncertain future. Incidentally, the economic well-being of the nation will be prejudiced by the wastage of industrial capacity at a time when, with proper foresight and organization, the demand of industry for labor should be insatiable. Limitations on the power of industrial producers to produce will prove as harmful in the hungry years which must follow a world-war as they are in face of the rapacious requirements of war itself. On the other hand, if for some reason the spirit of the pledge is never redeemed, if the employers succeed in utilizing the mass of women war workers as a cheap labor supply for post-war industry and as a catspaw for the deposition of labor's aristocracy, the result will be a serious menace to, if not the actual destruction of, such a life-standard as over a century of trade-union effort has painfully succeeded in building up. Here, too, will be a source of most disastrous and dangerous bitterness, and among that very section of the community, the home-coming army, which merits the first consideration of the nation.

G. REVOLUTIONARY UNIONISM

307. Sabotage

a) *A Definition of Sabotage*²¹

BY ARTURO M. GIOVANNITTI

1. *Any conscious and wilful act on the part of one or more workers intended to slacken and reduce the output of production in the industrial field, or to restrict trade and reduce the profits in the commercial field, in order to secure from their employers better conditions or to enforce those promised or maintain those already prevailing, when no other way of redress is open.*

2. *Any skilful operation on the machinery of production intended not to destroy it or permanently render it defective, but only temporarily to disable it and put it out of running condition in order to make impossible the work of scabs and thus to secure the complete and real stoppage of work during a strike.*

Whether you agree or not, sabotage is this and nothing but this. It is not destructive. It has nothing to do with violence, neither to life nor to property. It is nothing more or less than the chloroforming of the organism of production, the "knock-out drops" to put to sleep and out of harm's way the ogres of steel and fire that watch and multiply the treasures of King Capital.

b) *Go Cannie*²²

BY ARTURO M. GIOVANNITTI

It must be said with special emphasis that sabotage is not and must not be made a systematic hampering of production, that it is not meant as a perpetual clogging of the workings of industry, but that it is a simple expedient of war, to be used only in time of actual warfare with sobriety and moderation, and to be laid by when the truce intervenes.

The form of sabotage which was formerly known as Go Cannie consists purely and simply in "going slow" and "taking it easy" when the bosses do the same in regard to wages.

Let us suppose that one hundred men have an agreement with the boss that they should work eight hours a day and get \$4.00 in return for a certain amount of work. The American Federation of

²¹Adapted from the Introduction to Pouget's *Sabotage*, pp. 13-14. Copyright by Charles H. Kerr & Co., 1913. Written in the Essex County Jail, Lawrence, Massachusetts.

²²Adapted from the Introduction to Pouget's *Sabotage*, pp. 22-25. Copyright by Charles H. Kerr & Co., 1913.

Labor is very particular—and wisely so—that the amount of work to be done during a day be clearly stipulated and agreed upon by the two contracting parties—the workers and their employers, this for the purpose of preventing any “speeding up.”

To exemplify, let us suppose that these one hundred workers are bricklayers, get fifty cents an hour, work eight hours a day and, as agreed, lay fourteen hundred bricks a day. Now, one good day the boss comes up and tells them he can't pay them \$4.00 a day, but they must be satisfied with \$3.50. It is a slack season, there are plenty of idle men and, moreover, the job is in the country where the workers cannot very well quit and return home. A strike, for some reason or another, is out of the question. Such things do happen. What are they to do? Yield to the boss sheepishly and supinely? But here comes the syndicalist who tells them, “Boys, the boss reduced fifty cents on your pay—why not do the same and reduce two hundred bricks on your day's work? And if the boss notices it and remonstrates, well, lay the usual number of bricks, but see that the mortar does not stick so well, so that the top part of the wall will have to be made over again in the morning; or else after laying the real number of bricks you are actually paid for, build up the rest out of the plumb line or use broken bricks or recur to any of the many tricks of the trade. The important thing is not what you do, but simply that it be of no danger or detriment to the third parties and that the boss gets exactly his money's worth and not one whit more.”

The same may be said of the other trades. Sweatshop girls when their wages are reduced, instead of sewing one hundred pairs of pants, can sew, say, seventy; or, if they must return the same number, sew the other thirty imperfectly—with crooked seams—or use bad thread or doctor the thread with cheap chemicals so that the seams rip a few hours after the sewing, or be not so careful about the oil on the machines, and so on.

c) *Put Salt in the Sugar*²³

If you are an engineer you can, with two cents worth of powdered stone or a pinch of sand, stall your machine, and cause a loss of time or make expensive repairs necessary. If you are a joiner or woodworker, what is simpler than to ruin furniture without your boss noticing it, and thereby drive his customers away? A garment worker can easily spoil a suit or a bolt of cloth; if you are working in a department store a few spots on a fabric cause it to be sold for

²³Quoted from the *Montpelier Labor Exchange* for 1900, in Tridon, *The New Unionism* (1913), pp. 43-46.

next to nothing; a grocery clerk, by packing up goods carelessly, brings about a smashup; in the woolen or haberdashery trade a few drops of acid on the goods you are wrapping will make a customer furious; . . . an agricultural laborer may sow bad seed in wheat fields, etc.

d) *The Effectiveness of Sabotage*²⁴

BY ARTURO M. GIOVANNITTI

Now that the bosses have succeeded in dealing an almost mortal blow to the boycott, now that picket duty is practically outlawed, free speech throttled, free assemblage prohibited, and injunctions against labor are becoming epidemic; sabotage, this dark, invincible, terrible Damocles' sword that hangs over the head of the master class, will replace all the confiscated weapons and ammunition of the army of the toilers. It will win, for it is the most redoubtable of all, except the general strike. In vain may the bosses get an injunction against the strikers' funds—sabotage will get a more powerful one against their machinery. In vain may they invoke old laws and make new ones against it—they will never discover it, never track it to its lair, never run it to the ground, for no laws will ever make a crime of the "clumsiness and lack of skill" of a "scab" who bungles his work or "puts on the bum" a machine he "does not know how to run."

There can be no injunction against it. No policeman's club. No rifle diet. No prison bars. It cannot be starved into submission. It cannot be discharged. It cannot be black-listed. It is present everywhere and everywhere invisible, like the airship that soars high above the clouds in the dead of night, beyond the reach of the cannon and the searchlight, and drops the deadliest bombs into the enemy's own encampment.

Sabotage is the most formidable weapon of economic warfare, which will eventually open to the workers the great iron gate of capitalist exploitation and lead them out of the house of bondage into the free land of the future.

e) *The Universality of Sabotage*²⁵

Actions which might be classed as sabotage are used by the different exploiting and professional classes.

²⁴Adapted from the Introduction to Pouget's *Sabotage*, pp. 35-36. Copyright by Charles H. Kerr & Co., 1913.

²⁵Quoted from an editorial in the *Industrial Worker*, of Spokane, Washington, in Tridon, *The New Unionism* (1913), pp. 53-55.

The truck farmer packs his largest fruits and vegetables upon the top layer. The merchant sells inferior articles as "something just as good." The doctor gives "bread pills" or other harmless concoctions in cases where the symptoms are puzzling. The builder uses poorer materials than demanded in the specifications. The manufacturer adulterates foodstuffs and clothing. All these are for the purpose of gaining more profits.

Carloads of potatoes were destroyed in Illinois recently; cotton was burned in the southern states; coffee was destroyed by the Brazilian planters; barge loads of onions were dumped overboard in California; apples were left to rot on the trees of whole orchards in Washington; and hundreds of tons of foodstuffs are held in cold storage until rendered unfit for consumption. All to raise prices.

Some forms of capitalist sabotage are legalized, others are not. But whether or not the various practices are sanctioned by law, it is evident that they are more harmful to society as a whole than is the sabotage of the workers.

Capitalists cause imperfect dams to be constructed, and devastating floods sweep whole sections of the country. They have faulty bridges erected, and wrecks cause great loss of life. They sell steamer tickets, promising absolute security, and sabotage the life-saving equipment to the point where hundreds are murdered, as witness the "Titanic."

The "General Slocum" disaster is an example of capitalist sabotage on the life-preservers. The Iroquois Theater fire is an example of sabotage by exploiters who assured the public that the fire-curtain was made of asbestos. The cases could be multiplied indefinitely.

Capitalist sabotage aims to benefit a small group of non-producers. Working-class sabotage seeks to help the wage-working class at the expense of parasites.

The frank position of the class-conscious worker is that capitalist sabotage is wrong because it harms the workers; working-class sabotage is right because it aids the workers.

Sabotage is a direct application of the idea that property has no rights that its creators are bound to respect. Especially is this true when the creators of the wealth of the world are in hunger and want amid the abundance they have produced, while the idle few have all the good things of life.

The open advocacy of sabotage and its widespread use is a true reflection of economic conditions. The current ethical code, with all existing laws and institutions, is based upon private property in production. Why expect those who have no stake in society, as it is now constituted, to continue to contribute to its support?

308. The Standpoint of Syndicalism⁸⁰

BY LOUIS LEVINE

The fact which is untiringly emphasized in the Syndicalist analysis is the objective antagonistic position of those engaged in modern industry. The owners of the means of production directly or indirectly running their business for their private ends are interested in ever-increasing profits and in higher returns. The workingmen, on the other hand, who passively carry on productive operations are anxious to obtain the highest possible price for their labor-power which is their only source of livelihood. Between these two economic categories friction is inevitable, because profits ever feed on wages, while wages incessantly encroach upon profits.

From this twofold antagonism, rooted in the structure of modern economic society, struggle must ever spring anew, and this is the reason why all schemes and plans to avoid industrial conflicts fail so lamentably. Even the conservative trades unions, based on the idea that the interests of labor and capital are identical, are forced by circumstances to act contrary to their own profession of faith. Organizations like the Civic Federation are doomed to impotency. Boards of conciliation and arbitration work most unsatisfactorily and can show but few and insignificant results.

All efforts, therefore, to establish industrial peace under existing conditions result at best in the most miserable kind of social patchwork which but reveals in more striking nudity the irreconcilable contradictions inherent in modern economic organization.

There is but one logical conclusion from the point of view of Syndicalism. If industrial peace is made impossible by modern economic institutions, the latter must be done away with and industrial peace must be secured by a fundamental change in social organization. At the root of the struggle between capital and labor is the private ownership of the means of production which results in the autocratic or oligarchic direction of industry and in inequality of distribution. The way to secure industrial peace is to remove the fundamental cause of industrial war, that is, to make the means of production common property, to put the management of industry on a truly democratic basis and to equalize distribution.

The syndicalist distrusts the state and believes that political forms and institutions have outlived their usefulness and can not be adapted to new social relations. The syndicalist program for the future, in so

⁸⁰Adapted from an article in the *Annals of the American Academy of Political and Social Science*, XLIV, 114-18. Copyright, 1912.

far as it is definite and clear, contains the outlines of an industrial society—the basis of which is the industrial union, and the subdivisions of which are federations of unions, and federations of federations. The direction of industry, in this ideal system, is decentralized in such a manner that each industrial part of society has the control only of those economic functions for the intelligent performance of which it is especially fitted by experience, training, and industrial position.

The creative force of the industrial struggle, according to the syndicalist, manifests itself in a series of economic and moral phenomena which, taken together, must have far-reaching results. In the struggle for higher wages and better conditions of work the workingmen are led to see the important part they play in the mechanism of production and to resent more bitterly the opposition to their demands on the part of employers. With the intensification of the struggle, the feeling of resentment develops into a desire for emancipation from the conditions which make oppression possible; in other words, it grows into complete class-consciousness which consists not merely in the recognition of the struggle of classes but also in the determination to abolish the class-character of society. At the same time the struggle necessarily leads the workingmen to effect a higher degree of solidarity among themselves, to develop their moral qualities, and to fortify and consolidate their organizations.

It is evident that unless the syndicalist could theoretically connect the struggle of the present with his ideal of the future, the latter would remain a beautiful but idle dream even in theory. He is bound, therefore, to find concrete social forces working for the realization of his ideal. His position forces him to prove that his ideal is the expression of the interests of a definite class, that it is gradually being accepted by that class under the pressure of circumstances, and that the social destinies of the "revolutionary" class are more and more identified with the syndicalist ideal.

He cheerfully accepts the conclusion that if industrial strife is creating social harmony his task is to intensify the struggle, to widen its scope, and to perfect its methods—in order that the creative force of the struggle may manifest itself as thoroughly and on as large a scale as possible. He, therefore, logically assumes a hostile attitude towards all efforts tending to mitigate the industrial struggle, such as conciliation and arbitration, and definitely enters the economic arena for the purpose of stirring up strife and of accentuating the struggle as much as is in his power.

309. Where Radicalism Thrives³⁷

1. There are numbers of American workers who are not definitely attached either to any particular locality or to any line of industry. These migratory workers are continually moving from one part of the country to another as opportunity for employment is presented.

The great movements of these workers is seasonal in character, as, for example, the movement of harvest hands during the summer and autumn, the movement to the ice camps in the winter, the movement to the construction camps in the spring and summer. In addition there are large irregular movements of laborers which are produced by the depression in different trades and localities, and movements due to false rumors about opportunities and to the men's acquired habits of migration.

2. The number of these migratory workers seems to be increasing, though there are no available figures to show this conclusively.

3. A considerable proportion of these migratory workers are led to adopt this kind of life by reason of personal characteristics or weaknesses, and these weaknesses are accentuated rather than diminished by the conditions under which they live and work. Nevertheless, even if the migratory workers were all men of the highest character and reliability, there would still be a demand from our industries for the movement of the population in almost as great numbers as at present, in order to supply seasonal demands and to take care of the fluctuations in business.

4. An increasingly large number of laborers go downward instead of upward. Young men with ambition and hope start their lives as workers, but, meeting failure after failure in establishing themselves in some trade, gradually sink into the ranks of migratory and casual workers. Continuing their existence in these ranks, they lose self-respect. Afterward they become "down-and-outs"—tramps, bums, vagabonds, gamblers, pickpockets, yeggmen, and other petty criminals—in short, public parasites.

5. The movement of these migratory workers, at the present time, is practically unorganized and unregulated. Workmen in large numbers go large distances in the hope of finding employment on the basis of a mere rumor and frequently find that there is no work. At the same time the demand for labor in a given locality or industry remains unfilled, because the workers have failed to hear of the opportunity. In fact a large part of the movement of migratory workers

³⁷Adapted from the *Final Report of the Committee on Industrial Relations*, pp. 101-3. This is a summary of an investigation conducted for the commission by P. A. Speck, 1915.

at present is determined, not by the demands of industry for labor, but by the necessity to search for work. To illustrate: A man finds himself out of work in a given locality because of the termination of the busy season, because of business depression, or because of his personal discharge; he is unable to secure employment in the locality, and he has no information regarding opportunity for work elsewhere. If he remains in the locality he is almost certain to be arrested as a vagrant. His only recourse is to start moving, and the direction of the movement is usually determined by chance.

6. The attempts to regulate the movements of migratory workers by local organizations have, without exception, proved failures. This must necessarily be true no matter how well planned or well managed such local organizations may be.

7. The problem cannot be handled except on a national scale and by methods and machinery which are proportioned to the enormous size and complexity of the problem.

The basic industries of the country, including agriculture and railroad construction work, are absolutely dependent upon these migratory workers.

8. The conditions under which migratory workers live, both in the cities and at their places of employment, are such as to inevitably weaken their character and physique, to make them carriers of disease, and to create in them a habit of unsteadiness and migration.

The provisions for housing and feeding workers in the labor camps are subject to severe criticism, while the lodging houses in the large cities are even worse, especially from the viewpoint of morals. One season spent in a city lodging-house is generally sufficient to weaken the physique and destroy the moral fiber of even the strongest man. Numerous instances of the spread of dangerous diseases by migratory workers also have been brought to the notice of the commission.

9. The available information indicates clearly that even the most perfect distribution of workers, in accordance with the opportunities afforded at present by American industries, will still leave enormous numbers unemployed during certain seasons of the year and during periods of industrial depression.

10. The congregation of large numbers of migratory workers in large cities during the winter should be avoided, if possible, not only because they are an unjust burden upon the cities but because of the degenerating effects of city life during long periods of idleness.

11. The movement of migratory and seasonal workers is caused chiefly by the seasonal demand of industries and by the men's search for work, and, to a large degree, by their aimless desire to move about.

The conditions of their transportation have become grave. Millions of men annually have to, and are allowed to, resort to such a method of movement as stealing rides on the railways. This method of transportation results in the demoralization and casualization of workers, in their congestion in industrial and railway centers, in waste of their time and energy, in frequent bodily injuries and numerous fatal accidents and homicides annually, while, at the same time, it serves poorly the industrial demand for help.

12. When the workers return to the city, from labor camps, for instance, either to rest or to spend the time between seasons, they not only meet the unhealthy and demoralizing influence of cheap lodging-houses, saloons, houses of prostitution, and other similar establishments in the slums, but they fall easy prey to gamblers, small private bankers, and all sorts of parasites. As a result what earnings they have left after deduction of their living expenses at work places rapidly disappear, no matter how large these earnings may be.

XIII

PROBLEMS OF CONTROL WITHIN INDUSTRY

Two problems concerned with the work and well-being of the laboring classes are clearly recognized. The protection of the health of the workers, the reduction of accidents to a minimum, and the elimination from the lot of toilers of some measure of economic insecurity has long been regarded as a province for "labor legislation." The determination of wages, the fixing of hours of employment, and like features of the immediate wage-contract have in general been left to bargaining and are intimately associated with the development of unionism. Recently we have come to see a third set of problems, vaguely defined as "control within industry," which touch each of the other two, yet properly belong to neither.

The nature and content of the problem of "control within industry" can be set forth less definitely than its importance. It is evident that it has to do with questions of the organization of particular shops, of the "hiring and firing" of men, of the selection of methods of pay, of changes in the process of production, and kindred matters. It clearly covers the subject of the relations of laborers to the employer's agents and to each other, as well as the more comprehensive subject of "shop discipline." It can easily be made to extend to the general prescription of working conditions and to the terms of the wage bargain itself. In time the range of problems which it includes may comprehend many of the current functions of management and may involve the disposition of the profits of industry. One recent advocate of "control" sums the matter up by saying, "When we say we want control, we mean that we want the thing the employer does not want us to have."

Many would insist that the war has created the problem of control in industry. But those who have followed "labor economics" know that the problem was here before the war. The war, as in other cases, has but analyzed the industrial situation and revealed problems of long standing. Its industrial basis is quite explicit. First there is the distressing fact that under modern industrialism a proper scheme of incentives that appeal to the laborer has not been devised. The inefficiency that results from the accidental association of work and pay in his own mind is very large. It is increasingly evident that under the price-system the routine character of machine work does not appeal to the spirit of workmanship within him. A large part of his life is spent in the workshop, a matter that has led to an increasing realization that the problem of work is more than a mere question of wages. Second, the democratic franchise has led to a comparison of the worker's influence in politics with the non-discretionary place he has in industry. Increasingly he has felt his inability to make responsible judgments about the work which makes up the most important part of his life. Third, it has been discovered that industrial relations within the shop have not been reduced to law and order, that free bargaining has failed to include within its terms the proper regulation of organization, discipline, and processes.

Out of this situation there is coming a movement that finds expression in a tendency toward "a constitution for industry." Changes in technical processes shall be introduced under specified conditions. Innovations in the organization of labor shall respond to proper procedure. The discipline of workers must conform to pre-established rule and must be free from the arbitrary word of the foreman. All shop matters shall be duly legislated upon and set down in written order. And, upon these and like matters, a measure of control

shall be given to the employees. Of this development "the shop steward" movement, the organization of "industrial councils," the establishment of "plans of participation" and like devices are typical.

The movement has gone far enough both in analysis and in application to raise a multitude of questions, but not far enough to yield answers. Are the innovations favored by employers because they promise to increase profits? Are they to be condemned for this reason? Is "a share in management" an effective means for showing labor the fallacy of restricting output? Is the tendency of this new device to break down craft unionism and to substitute industrial unionism? Is the "constitutionalization of industry" anything more than the substitution of one mechanical device for another? How can such a mere change in organization make industry better able to appeal to the laborer's instincts? Will laborers' control be a stage-play or a reality? If the labor council has no discretion, will not its existence be purely nominal? If employers and employees have equal representation how will deadlocks on real issues be broken? If the balance of power tends to favor the laborer, what will become of the effectual limits of his control? Will not profits tend to disappear in wages? In this case will not laborers in strategic positions wax fat at the expense of laborers who are accidentally in industries not so strategically situated? Will rewards then be proportionate to ability and enterprise? What guarantees will society have of improvements in technique and organization from a group that may have vested interests in the old? Is not mass action always conservative? But enough of these questions. The reader can extend the list as far as he likes.

Like many other problems of economics the changes which are impending are coming as a result of an accommodation of the industrial system to its most immediate problems. In the past we have not been in the habit of setting down the future trend of a proposed change and weighing carefully the relative social advantages and disadvantages of its adoption. Nor are we likely to adopt this method of procedure in this instance. The adoption of rules for living and working together is still in the stage of rule of thumb. Here, as elsewhere, we are likely to yield to immediate pressure and leave the future to a Providence which we think we can trust.

A. UNREST

310. War and National Unity¹

The seeming prosperity of the country during the war has obscured the realities of the situation. Because the war has not given rise to unemployment and the financial crisis which followed on its outbreak was successfully tided over, many observers ignore the industrial dislocation which has taken place. Because there has been a general cessation of disputes between labor and capital, which has enabled us to concentrate our energies upon the vigorous prosecution of the war, they imagine that the problem of industrial unrest has in some way been solved.

These conclusions are altogether contrary to the facts of the case. The prosperity of the present is artificial and transient. It is due in part to strenuous exertion which cannot be continued indefinitely; in part to sacrifices which go unrealized because they are not pro-

¹Adapted from memorandum on the *Industrial Situation after the War*, pp. 6-11. Circulated by the Garton Foundation, 1916.

claimed; in part to the depletion of accumulated stocks; in part to the suspension of expenditure on national plants which, if continued, would end in dilapidation; in part to the temporary absorption into industry of people who will not continue to be producers after the war; in part to borrowing and recalling money from abroad. It resembles in large measure the lavishness of the spendthrift which leads to bankruptcy. The absence of unemployment is due, not to thriving trade, but to the withdrawal of several million men from the labor market, the inflation of the currency, and the concentration of purchasing power in the hands of the state, which has not to study the absorptive power of commercial markets for the disposal of its purchases, but uses them to destruction as fast as they are produced. It is not till these stimulants are removed and we are left once more to the operation of the ordinary laws of supply and demand, complicated by the difficulties of readjustment to normal conditions, that the real situation created by the war will become obvious.

It may be said that the success with which our national organization and activities were adapted to the circumstances of the war gives a fair promise of similar success in the readjustments necessitated by peace. But the problems presented by a temporary crisis in which economic considerations sink into a secondary plane and the strongest possible appeal is made to the spirit of self-sacrifice in all classes, afford no real parallel to those presented by a return to normal conditions after a long period of dislocation. The factors mentioned in the preceding paragraph, while they have eased the situation during the war, will become a source of weakness as soon as peace is signed. In some cases, such as the withdrawal of men from the labor market, their operation will be exactly reversed. In others, such a depletion of stocks and the suspension of expenditures on national plant, immediate relief has been purchased by mortgaging the future. The war has, in these two regards, been paid for by drafts upon our prospective wealth which will have to be met at a time when the enthusiasm which sustains a nation during war has given place to the reaction that usually follows a period of tension. The rapid recovery of industry from the shock of war affords no ground for dismissing lightly the difficulties inherent in a return to peace conditions. On the contrary, an examination of the causes of that recovery reveals additional grounds for viewing those difficulties with concern. The prospect is a grave one and it is likely to be further complicated by the spirit in which it is regarded by both parties to industry.

Even were the present relations of employers and employed entirely harmonious, we could not feel complete confidence in the con-

tinuance of that harmony after the war. But such is not the case. Even under the stress of war there is ill-feeling, suspicion, and recrimination. Charges have been made against each side of placing personal and class interests before national welfare, and of using the national emergency to snatch present gains and to strengthen its strategical position for the resumption of industrial hostilities. Employers have pointed to extortionate wage demands, broken time, slackness, insubordination, and sullen resistance to temporary changes, the necessity for which has been openly acknowledged. The workers have pointed to war profits, to the virtual enslavement of labor by the misuse of powers conferred by the state, to attempt to undermine and weaken the unions and so to establish an ascendancy which may be maintained after the war. They lay stress, also, on the increased cost of living, which they attribute in the main to the deliberate action of manufacturers and traders, and are more studious of their own than of national advantage.

There is a prevalent belief that the "brotherhood of the trenches" and workshops, the spirit of co-operation and self-sacrifice which has made possible our efforts in the war, will remain as a permanent factor in our national life. A great deal has been said of the effect of discipline upon the men who have served at the front, and it is widely assumed that on their return they will be more amenable to management and less responsive to agitation. Those who argue thus do so mostly on general principles and probabilities. But it is no use arguing that certain conditions *ought* to produce certain effects if the facts show that they *do not*. There is evidence that many of the men who return from the trenches to the great munition and ship-building centers are, within a few weeks of their return, amongst those who exhibit most effectively their discontent with present conditions. Among those who have fought in Flanders or who have been employed in making shells at home, there are many who look forward to a great social upheaval following the war. To some this may be distressing and almost incredible. The facts remain, and the facts must be faced.

So long as the country is actually at war, this spirit is likely to be held in check both by the abnormal conditions of state control and by the patriotism of the mass of the people. So long as the peril from without remains the supreme factor, we may look to the workmen to forego his most cherished safeguards and to employers and the propertied classes to bear patiently restriction of profits and an unparalleled burden of taxation. But we have had signs already, in the war-time strikes, in the denunciations of profiteering, and in the evidence of a great body of suppressed resentment on both sides,

which does not as yet come to the surface, that the industrial peace is only a truce. It would be a mistake to assume that this truce will survive the immediate pressure of foreign war which brought it about.

The idea that the united front shown by the country to the external enemy implies of itself the burial of class hatred and suspicion and that the suspension of controversy during the war foreshadows the cessation of industrial disputes after the war, is dangerous just because it is so attractive. The natural desire to accentuate the appearance of unity and minimize internal differences leads us to treat as negligible sections of public opinion which are really powerful and may become predominant. The spirit of patriotism which induces the majority of all classes to remain silent as to their grievances is construed to mean that the feeling of grievance does not exist. At the same time that criticism is supposed to imply unqualified approval.

The war has not put an end to industrial unrest. Every one of the old causes of dispute remains and others of a most serious nature have been added in the course of the war. The very moderation and unselfishness shown by the responsible leaders of organized labor are looked upon by important sections of their following as a betrayal of the cause and by some employers as a tactical opportunity. The efforts of the government to safeguard the interests of the workers are likely to give rise to unreasonable demands for future action on the one side and ungenerous criticism on the other. The difficult and complex problem of the return to peace conditions will bristle with thorny questions only to be solved successfully by the clear-sighted and unselfish co-operation of all concerned. There are too many indications that they may be approached in a spirit of passion and suspicion, which would render a satisfactory solution impossible.

This would be a serious matter even if the industrial problem stood alone. Failure to cope with the economic situation must necessarily involve widespread loss and misery. But the industrial problem is inextricably entangled with social and political development. It is not merely that a certain minimum standard of material well-being is a necessary condition of moral and intellectual advance, or that commercial prosperity is an important factor in the strength and prestige of the state. Industry itself has a human side. The discontent of labor is not exclusively a matter of wages and hours of work. It is becoming increasingly evident that it is based to a very large extent upon questions of *status* and social conditions. The spirit in which both employers and employed regard their common work will color not only their relations to each other but their general attitude toward the corporate life of the nation. That attitude has been roughly challenged by the war, which has profoundly disturbed

the current both of circumstances and of ideas. It has shaken men's faith in the permanence of existing conditions and accustomed them to the contemplation of great changes and to the possibility of extraordinary exertions. The moment is a propitious one for an attempt to understand more clearly than in the past the fundamental principles of industrial relations and their place in the national life. The forces of change are visibly at work, and it rests with us whether we allow them to hurry us blindly with them, or direct them along the path of ordered progress.

311. Portrayal of Unrest in War²

BY FELIX FRANKFURTER

1. The Commission had wide opportunities, both as to the extent of territory and the variety of industries investigated, to inquire into industrial conditions in war time. The Commission visited Arizona, the Pacific Coast, Minneapolis and St. Paul, and Chicago; studied the situation in the copper mines, the telephone industry, the Northwest lumber industry, the meat-packing industry as centered in Chicago, the rapid-transit situation and the related industrial condition in the Twin Cities, and observed as well other industries in the states adjacent to those it visited. All relevant sources of information were tapped, for close contact was had with workmen on strike and at work; employers and professional men and federal and state officials, who are brought particularly in touch with labor matters; and in addition, the voluminous official files of federal and state authorities furnished much knowledge. While undoubtedly each industry presents its own peculiarities, certain underlying general factors applicable to all industry emerge from the three months' work of the commission.

2. Throughout its inquiry and in all its work the Commission kept steadily in mind the war needs of the country. The conclusion cannot be escaped that the available man power of the nation, serving as the industrial arm of war, is not employed to its full capacity or wisely directed to the energies of the war.

3. The effective conduct of the war suffers needlessly because of (a) interruption of work due to actual or threatened strikes; (b) purposed decrease in efficiency through the "strike on the job"; (c) decrease in efficiency due to labor unrest; and (d) dislocation of the labor supply.

²Adapted from the report of the President's Mediation Commission to the President of the United States, January 9, 1918. The report is signed by W. B. Wilson, chairman; Ernest P. Marsh; Verner S. Reed; Jackson L. Spangler; John H. Walker; Felix Frankfurter, secretary and counsel; and Max Loewenthal, assistant secretary. This is a summary of the Commission's conclusions.

4. These are not new conditions in American industry, nor are their causes new. The conditions and their causes have long been familiar and long uncorrected. War has only served to intensify the old derangements by making greater demands upon industry and by affording the occasion for new disturbing factors.

5. Among the causes of unrest, familiar to students of industry, the following stand out with special significance to the industrial needs of war:

a) Broadly speaking, American industry lacks a healthy basis of relationship between management and men. At bottom this is due to the insistence by employers upon individual dealings with their men. Direct dealings with employees' organizations is still the minority rule in the United States. In the majority of instances there is no joint dealing, and in too many instances employers are in active opposition to labor organizations. This failure to equalize the parties in adjustments of inevitable industrial contests is the central cause of our difficulties. There is a commendable spirit throughout the country to correct specific evils. The leaders in industry must go farther, they must help to correct the state of mind on the part of labor; they must aim for the release of normal feelings by enabling labor to take its place as a co-operator in the industrial enterprise. In a word, a conscious attempt must be made to generate a new spirit in industry.

b) Too many labor disturbances are due to the absence of disinterested processes to which resort may be had for peaceful settlement. Force becomes too ready an outlet. We need continuous administrative machinery by which grievances inevitable in industry may be easily and quickly disposed of and not allowed to reach the pressure of explosion.

c) There is a widespread lack of knowledge on the part of capital as to labor's feelings and needs and on the part of labor as to problems of management. This is due primarily to a lack of collective negotiation as the normal process of industry. In addition there is but little realization on the part of industry that the so-called "labor problem" demands not only occasional attention but continuous and systematic responsibility, as much so as the technical or financial aspects of industry.

d) Certain specific grievances, when long uncorrected, not only mean definite hardships; they serve as symbols of the attitude of employers and thus affect the underlying spirit. Hours and wages are, of course, mostly in issue. On the whole, wage increases are asked for mostly in order to meet the increased cost of living, and such demands should be met in the light of their economic causes. Again,

the demand for the eight-hour day is nation wide, for the workers regard it as expressive of an accepted national policy.

6. Repressive dealing with manifestations of labor unrest is the source of much bitterness, turns radical labor leaders into martyrs and thus increases their following, and, worst of all, in the minds of workers tends to implicate the government as a partisan in an economic conflict. The problem is a delicate and difficult one. There is no doubt, however, that the Bisbee and Jerome deportations, the Everett incident, the Little hanging, and similar acts of violence against workers have had a very harmful effect upon labor both in the United States and in some of the allied countries. Such incidents are attempts to deal with symptoms rather than causes. The I.W.W. has exercised its strongest hold in those industries and communities where employers have most resisted the trade-union movement and where some form of protest against unjust treatment was inevitable.

7. The derangement of our labor supply is one of the great evils in industry. The shockingly large amount of labor turnover and the phenomenon of migratory labor means an enormous economic waste and involves an even greater social cost. These are evils which flow from grievances such as those we have set forth; they are accentuated by uncontrolled instability of employment. Finally, we have failed in the full use and wise direction of our labor supply, falsely called "labor shortage," because we have failed to establish a vigorous and competent system of labor distribution. However, means and added resources have recently provided for a better grappling with this problem.

8. It is then to uncorrected specific evils and the absence of a healthy spirit between capital and labor, due partly to these evils and partly to an unsound industrial structure, that we must attribute industrial difficulties which we have experienced during the war. Sinister influences and extremist doctrine may have availed themselves of these conditions; they certainly have not created them.

9. In fact, the overwhelming mass of the laboring population is in no sense disloyal. Before the war labor was, of course, filled with pacific hopes shared by nearly the entire country. But, like other portions of the citizenship, labor has adjusted itself to the new facts revealed by the European war. Its suffering and its faith are the suffering and the faith of the nation. With the exception of the sacrifices of the men in the armed service, the greatest sacrifices have come from those at the lower rung of the industrial ladder. Wage increases respond last to the needs of this class of labor, and their meager returns are hardly adequate, in view of the increased cost of living, to maintain even their meager standard of life. It is upon

them the war pressure has borne most severely. Labor at heart is as devoted to the purposes of the government in the prosecution of this war as any other part of society. If labor's enthusiasm is less vocal, and its feelings here and there tepid, we will find the explanation in some of the conditions of the industrial environment in which labor is placed and which in many instances is its nearest contact with the activities of the war.

a) Too often there is a glaring inconsistency between our democratic purposes in this war abroad and the autocratic conduct of some of those guiding industry at home. This inconsistency is emphasized by such episodes as the Bisbee deportations.

b) Personal bitterness and more intense industrial strife inevitably result when the claim of loyalty is falsely resorted to by employers and their sympathizers as a means of defeating sincere claims for social justice, even though such claims be asserted in time of war.

c) So long as profiteering is not comprehensively prevented to the full extent that governmental action can prevent it, just so long will a sense of inequality disturb the fullest devotion of labor's contribution to the war.

The causes of unrest suggest their own means of correction.

1. The elimination to the utmost practical extent of all profiteering during the period of the war is a prerequisite to the best morale in industry.

2. Modern large-scale industry has effectually destroyed the personal relation between employer and employee—the knowledge and co-operation that come from personal contact. It is therefore no longer possible to conduct industry by dealing with employees as individuals. Some form of collective relationship between management and men is indispensable. The recognition of this principle by the government should form an accepted part of the labor policy of the nation.

3. Law, in business as elsewhere, depends for its vitality upon steady employment. Instead of waiting for adjustment after grievances come to the surface there is needed the establishment of continuous administrative machinery for the orderly disposition of industrial issues and the avoidance of an atmosphere of contention and the waste of disturbances.

4. The eight-hour day is an established policy of the country; experience has proved justification of the principle also in war times. Provision must of course be made for longer hours in case of emergencies. Labor will readily meet this requirement if its misuse is guarded against by appropriate overtime payments.

5. Unified direction of the labor administration of the United States for the period of the war should be established. At present there is an unrelated number of separate committees, boards, agencies, and departments having fragmentary and conflicting jurisdiction over the labor problems raised by the war. A single-headed administration is needed, with full power to determine and establish the necessary administrative structure.

6. When assured of sound labor conditions and effective means for the just redress of grievances that may arise, labor in its turn should surrender all practices which tend to restrict maximum efficiency.

7. Uncorrected evils are the great provocative to extremist propaganda, and their correction would be in itself the best counter-propaganda. But there is need for more affirmative education. There has been too little publicity of an educative sort in regard to labor's relation to the war. The purposes of the government and the methods by which it is pursuing them should be brought home to the fuller understanding of labor. Labor has most at stake in this war, and it will eagerly devote its all if only it be treated with confidence and understanding, subject neither to indulgence nor neglect, but dealt with as a part of the citizenship of the state.

B. OUTPUT

312. Selling Labor Short^a

BY WALTER DREW

The most vital, important, and sinister of the economic features of the closed shop is the decreased efficiency of the union man. The fact is too well settled to permit of argument. Bricklayers, for instance, in a closed shop will lay on an average eight hundred to one thousand brick per day, when a fair day's work of eight hours, and one which was common a few years ago, would be three thousand and more brick. The structural iron worker, when he had his closed shop, would drive from seventy-five to one hundred rivets per day. In an open shop at the present time in New York and other cities, the output runs from two hundred to four hundred rivets per day. A carpenter before he had a monopoly would hang a door in an hour; now, in his closed shop, he considers four doors a good day's work. President Mellen, of the New Haven, in a recent report, stated that with every increase in wages to the union employees of the road there was a corresponding decrease in efficiency.

^aAdapted from *Closed Shop Unionism*, pp. 10-12, a pamphlet issued by the National Association of Manufacturers of the United States of America, 1909.

These things are not hard to understand. The wage scale by which the good man and the poor receive the same wage takes away the incentive of the good man. Why should he do any more or better work than his fellow, when they receive the same wage? The good man, also, is often kept from conscientious work by the union doctrine that he must not set too fast a pace for his less-skilled fellow, who otherwise might lose his job if the comparison were too much to his discredit. This applies not only to his less-skilled fellow union men, but also to the shiftles and the lazy, who because of service in union political matters have been rewarded with a job in which the union boss desires to see them retained. The practice of making work is also common. That is, in dull times, if a piece of work could be very well performed by ten men in a given time, each man employed so decreases his efforts as to make it necessary to employ twelve or fifteen men in order that employment may be given to more of the members of the union. The teaching of labor leaders to the effect that labor produces all wealth, that there is an inevitable conflict between capital and labor, and that unions are organized for the purpose of getting as much as possible and giving in return as little as possible, all serve to deaden the conscience and decrease the effort of the union man. The natural result of this combination of causes, added to the ever-present fact, of course, that the union man in the closed shop is not subject to discharge, as would be a non-union man, but has back of him the entire strength of the monopoly to vouchsafe him his job, results in reducing the efficiency of the men to a point where that of the shiftless, the lazy, and the least skilled becomes the common measure of the efficiency of all. The question of high wages, then, is not the most important in reaching the final wage cost; and when, coupled with high wages, there is a decrease in the output of the worker 50 per cent or more, the final figures reflected in the cost of production become startling.

As a partial summing up, pile up on top of this abnormal wage cost the toll of graft; the losses occasioned by jurisdictional disputes, sympathetic strikes and strikes waged to establish the closed shop and involving no question of wages or hours; the general and more indefinite loss to industry through the disorganization of the productive factors due to the domination of the union boss and the arbitrary restrictions and limitations insisted upon—and some idea may be gained of what the closed shop means in its relation to the cost of production. The final consumer must pay for all these items, unreasonable, abnormal, illegitimate and uneconomic as they may be. One partial offset to this is the fact that high wages are paid to the few men having the monopoly, thus increasing their purchasing power

and creating to some extent a market for goods at the higher prices; but this is a very small item of benefit, for the reason that the number of men receiving the higher wages is so few in comparison with the number of the great purchasing public that the wages paid them can have very little appreciable influence in creating a general market. The final result, then, is that the general public pays abnormal and uneconomic prices for many products with no corresponding element of benefit.

313. The Limits of Sabotage⁴

THORSTEIN VEBLEN

Sabotage is not to be condemned out of hand, simply as such. There are many measures of policy and management both in private business and in public administration which are unmistakably of the nature of sabotage and which are not only considered to be excusable, but are deliberately sanctioned by statute and common law and by the public conscience. Many such measures are quite of the essence of the case under the established system of law and order, price and business, and are faithfully believed to be indispensable to the common good. It should not be difficult to show that the common welfare in any community which is organized on the price system cannot be maintained without a salutary use of sabotage—that is to say, such habitual recourse to delay and obstruction of industry and such restriction of output as will maintain prices at a reasonably profitable level and so guard against business depression. Indeed, it is precisely considerations of this nature that are now engaging the best attention of officials and business men in their endeavors to tide over a threatening depression in American business and a consequent season of hardship for all those persons whose main dependence is free income from investments.

Without some salutary restraint in the way of sabotage on the productive use of the available industrial plant and workmen, it is altogether unlikely that prices could be maintained at a reasonably profitable figure for any appreciable time. A businesslike control of the rate and volume of output is indispensable for keeping up a profitable market, and a profitable market is the first and unremitting condition of prosperity in any community whose industry is owned and managed by business men. The ways and means of this necessary control of the output of industry are always and necessarily something in the nature of sabotage—something in the way of retardation, restriction, withdrawal, unemployment of plant and workmen—whereby production is kept short of productive capacity. The

⁴Adapted from "On the Nature and Uses of Sabotage" in the *Dial*, LXVI 342-46. Copyright, 1919.

mechanical industry of the new order is inordinately productive. So the rate and volume of output have to be regulated with a view to what the traffic will bear—that is to say, what will yield the largest net return in terms of price to the business men in charge of the country's industrial system. Otherwise there will be "overproduction," business depression, and consequent hard times all round. Overproduction means production in excess of what the market will carry off at a sufficiently profitable price. So it appears that the continued prosperity of the country from day to day hangs on a "conscientious withdrawal of efficiency" by the business men who control the country's industrial output. They control it all for their own use, of course, and their own use means always a profitable price.

In any community that is organized on the price system, with investment and business enterprise, habitual unemployment of the available industrial plant and workmen, in whole or in part, appears to be the indispensable condition without which tolerable conditions of life cannot be maintained. That is to say, in no such community can the industrial system be allowed to work at full capacity for any appreciable interval of time, on pain of business stagnation and consequent privation for all classes and conditions of men. The requirements of profitable business will not tolerate it. So the rate and volume of output must be adjusted to the needs of the market, not to the working capacity of the available resources, equipment and man power, nor to the community's need of consumable goods. Therefore there must always be a certain variable margin of unemployment of plant and man power. Rate and volume of output can, of course, not be adjusted by exceeding the productive capacity of the industrial system. So it has to be regulated by keeping short of maximum production by more or less, as the condition of the market may require. It is always a question of more or less unemployment of plant and man power, and a shrewd moderation in the unemployment of these available resources, a "conscientious withdrawal of efficiency," therefore, is the beginning of wisdom in all sound work-day business enterprise that has to do with industry.

All this is matter of course and notorious. But it is not a topic on which one prefers to dwell. Writers and speakers who dilate on the meritorious exploits of the nation's business men will not commonly allude to this voluminous running administration of sabotage, this conscientious withdrawal of efficiency, that goes into their ordinary day's work. One prefers to dwell on those exceptional, sporadic, and spectacular episodes in business where business men have now and again successfully gone out of the safe and sane highway of conservative business enterprise that is hedged about with a conscientious

withdrawal of efficiency, and have endeavored to regulate the output by increasing the productive capacity of the industrial system at one point or another.

Where the national government is charged with the general care of the country's business interests, as is invariably the case among the civilized nations, it follows from the nature of the case that the nation's lawgivers and administration will have some share in administering that necessary modicum of sabotage that must always go into the day's work of carrying on industry by business methods and for business purposes. The government is in a position to penalize excessive or unwholesome traffic. So it is always considered necessary, or at least expedient, by all sound mercantilists to impose and maintain a certain balance or proportion among the several branches of industry and trade that go to make up the nation's industrial system. The purpose commonly urged for measures of this class is the fuller utilization of the nation's industrial resources in material, equipment, and man power; the invariable effect is a lowered efficiency and a wasteful use of these resources, together with an increase of international jealousy. But measures of that kind are thought to be expedient by the mercantilists for these purposes—that is to say, by the statesmen of these civilized nations, for the purposes of the vested interests. The chief and nearly sole means of maintaining such a fabricated balance and proportion among the nation's industries is to obstruct the traffic at some critical point by prohibiting or penalizing any exuberant undesirables among these branches of industry. Disallowance, in whole or in part, is the usual and standard method.

The great standing illustration of sabotage administered by the government is the protective tariff, of course. It protects certain special interests by obstructing competition from beyond the frontier. This is the main use of a national boundary. The effect of the tariff is to keep the supply of goods down and thereby keep the price up, and so to bring reasonably satisfactory dividends to those special interests which deal in the protected articles of trade, at the cost of the underlying community. A protective tariff is a typical conspiracy in restraint of trade. It brings a relatively small, though absolutely large, run of free income to the special interests which benefit by it, at a relatively, and absolutely, large cost to the underlying community, and so it gives rise to a body of vested rights and intangible assets belonging to these special interests.

Of a similar character, in so far that in effect they are in the nature of sabotage—conscientious withdrawal of efficiency—are all

manner of excise and revenue-stamp regulations; although they are not always designed for that purpose. Such would be, for instance, the partial or complete prohibition of alcoholic beverages, the regulation of the trade in tobacco, opium, and other deleterious narcotics, drugs, poisons, and high explosives. Of the same nature, in effect if not in intention, are such regulations as the oleomargarine law; as also the unnecessarily costly and vexatious routine of inspection imposed on the production of industrial (denatured) alcohol, which has inured to the benefit of certain business concerns that are interested in other fuels for use in internal-combustion engines; so also the singularly vexatious and elaborately imbecile specifications that limit and discourage the use of the parcel post, for the benefit of the express companies and other carriers which have a vested interest in traffic of that kind.

In what has just been said there is, of course, no intention to find fault with any of these uses of sabotage. It is not a question of morals and good intentions. It is always to be presumed as a matter of course that the guiding spirit in all such governmental moves to regularize the nation's affairs, whether by restraint or by incitement, is a wise solicitude for the nation's enduring gain and security. All that can be said here is that many of these wise measures of restraint and incitement are in the nature of sabotage, and that in effect they habitually, though not invariably, inure to the benefit of certain vested interests—ordinarily vested interests which bulk large in the ownership and control of the nation's resources. That these measures are quite legitimate and presumably salutary, therefore, goes without saying. In effect they are measures for hindering traffic and industry at one point or another, which may often be a wise precaution.

314. The Increase in Production^a

In order that we may understand the nature and importance of the fundamental problem, it is necessary to examine a little more closely the essentials of industrial prosperity and its relations to national welfare.

The foundation of industrial prosperity is production. The material well-being of a nation demands, first, the attainment of the possible maximum both as regards size and quality of output, whether of goods or services; secondly, the elimination of all waste of mate-

^aAdapted from a memorandum on *The Industrial Situation after the War*. Circulated by the Garton Foundation (1916), ¶¶ 133-41. Reprinted by Industrial Relations Division, United States Shipping Board Emergency Fleet Corporation, Philadelphia.

rial or effort in the process of production ; thirdly, an equitable division of the proceeds of industry, enabling all those concerned in the creation of wealth to obtain a reasonable share of its material benefits. The social welfare of the nation requires that the conditions of work and the relations between the parties to industry shall be such as make for intelligent and self-respecting citizenship on the part of all concerned, and that the activities which occupy so large a proportion of men's time and powers shall be felt by them to be fit and worthy employment of their energies.

Any attempt to solve industrial problems which is concerned solely with the distribution of earnings must necessarily be inadequate. In the first place, the amount available for distribution depends upon the amount produced, and an attempt by any section of the community to increase its own share of the proceeds by a scheme of redistribution which ignores the necessity of increased creative effort is apt to result in a shrinkage of the available total. In the second place, the questions which center round wages and profits, important as they are, are not so vital as the questions of industrial relations and social conditions with which they are connected.

In order that production may be efficient both as regards the quantity and quality of output and the methods employed, it is essential that the supply of capital should be adequate and that the national plant should be kept up to date. The war has involved deterioration of plant and a heavy drain on capital. In order that capital may be renewed and the national plant repaired and kept in the highest state of efficiency it is essential that confidence should be maintained and savings increased. The accumulation of surplus wealth which we call capital represents the balance of production over consumption in previous years and is constantly being added to or diminished in accordance with the ratio of goods produced to goods consumed. When that accumulation has been depleted, the deficiency can be made good only by an increase in the annual balance. It will be necessary to encourage economy in the consumption of goods and the investment of the resulting savings in productive industries. We must work hard and efficiently in order to produce more. We must spend less on luxuries in order that we may save more. We must increase confidence in the national industries in order that savings may be attracted into the right channels.

Increased production, increased saving, increased confidence—these are the keys to the whole problem.

Production may be hampered either in pursuance of a deliberate policy, or simply by the use of inefficient methods. The interest of

employers, as a general rule, is to increase output, the danger of overstocking being met by improved distributive organization and the opening up of new markets. Cases of restriction, for the sake of keeping up prices, occur mainly in connection with monopoly products and the problem of counteracting the influences which make for restricted output in these cases deserves a more careful study than has yet been given to it.

Much of the limitation of output, on the part of employers, arises from inefficiency in management—conservation in methods, the retention of badly planned works and out-of-date plant, bad organization, neglect of scientific research, the presence of “deadheads” on the office staff.

The limitation of output by labor arises partly from the legitimate desire to restrict the hours of work in the interest of health, education, family life and enjoyment. These are considerations of social welfare which cannot be set aside. We must look for greater production rather than from an increase in the number of hours worked. There are, however, large sections of labor by whom a further limitation of output is deliberately practiced in the assumed interests of their class as a whole. In some cases the motive is the honest but mistaken belief that the less each man does the more work there will be to go round. “Work” is regarded as an exhaustible fund, or at the best as a diminishable flow, and it is assumed to be in the interests of his class that each man should “use up” as little as possible. The fallacy lies in the conception of an inelastic “wages fund.” Wages come out of the stream of products, and other factors remaining constant, the distribution of wages cannot be widened except by an increase of the stream. In the case of trades in which employment is irregular and demand uncertain, the temptation to slacken work as a job nears completion is easy to understand, but the results of the policy are too wasteful to be contemplated with satisfaction. The remedy must be sought in a better organization of the industries concerned which will give the workman greater security of tenure, and remove the fear of unemployment or relegation to lower-paid work as a result of exercising his maximum effort.

A further cause of limitation of output lies in the natural differences of individual capacity. The workers believe that if each man were allowed to produce to his full power, the minimum standard demanded by the employer would be based on the performances of the quickest and most skilful and a “speeding-up” process would be introduced, involving either excessive strain or lessened earnings on the part of the majority. From this point of view, restriction of output is

a sacrifice made by the ablest workers, in the interests of their fellows. While such restrictions necessarily result in limiting the total output, it is obvious that labor cannot fairly be asked to remove them unless some definite assurance can be given against the evils anticipated. The question is one which will require very serious attention both from employers and employed, when we come to face the task of industrial reconstruction.

With regard to quality of output it is obvious that the workers' interest lies in the direction of a high standard which will improve the status of those concerned in the industry. Whether from the point of view of earning power or of interest and satisfaction in their work, the workmen have everything to gain by the standard of workmanship in their particular trade being raised. A general appreciation of this fact, resulting in greater attention by labor organizations to questions of craft training and quality of output, would do much both to raise the position of labor itself and to strengthen the hands of those employers who are striving for a high level of production, as against those who seek to make their profit out of the bad taste of bargain hunters.

It is clear that any restrictions placed upon production, whether by employers or employed, beyond those based upon the social needs of the workers, must be removed if the difficulties of the economic situation are to be faced successfully. In order to make good the wastage of war and raise the general level of industrial prosperity, the efforts of both parties must be united for the purpose of increasing the quantity of output and improving its quality. In order to avoid disastrous conflicts with regard to the distribution of earnings, the national income, the total sum available for distribution, must not only be maintained, but increased. The prospects of success depend upon the willingness of both sides to face the facts of the situation and to throw aside somewhat of their mutual distrust. It will be necessary for labor to abandon the policy of restricting output and to concentrate upon demanding adequate remuneration for the work performed. It will be equally necessary for employers to recognize that efficient production is the only ultimate source of profit, that the policy of keeping down wages and cutting piece rates is opposed to their own interests, and that industry as a whole will benefit by any rise in the level of craftsmanship and production. There is today an urgent necessity for the removal of all obstacles to any man either working or earning to the full extent of his capacity.

The argument has brought us to the fundamental question which underlies all our industrial troubles—the relation between employers

and employed. The limitation of production, whether by labor restrictions on output or cutting of piece rates by employers, springs from the belief that the interests of employers and employed are inevitably and fundamentally hostile. If it can be shown that their interests are concurrent as regards production and only partially opposed even as regards distribution, the way will have been paved for a compromise which will leave both parties free to co-operate in the work of industrial reconstruction.

The relations of employers and employed are partly antagonistic as regards distribution, because it is to the interest of each to secure a relatively large share of wealth produced. They are not wholly opposed, even in this respect, because it is to the interest of the employer that his workpeople's standard of life shall be sufficiently high to promote efficiency and afford a reasonable incentive to effort; it is to the interest of the workman that the firm shall be sufficiently prosperous to provide steady employment. Good work cannot be expected from men who are ill-fed and insufficiently clothed, or who feel that they derive no advantage from increased production. Continued employment cannot be expected from a firm which is not making a profit on its business. The qualification becomes still more important when it is extended from the relations existing in a particular firm to industry as a whole. It is to the interest of all employers engaged in the supply of common commodities that wages as a whole should be good, in order that the purchasing power of their customers may be high. It is to the interest of the workers, who are also consumers, that firms producing articles of general use should be sufficiently prosperous to keep plant up to date and produce well and cheaply.

The interests of employers and employed are concurrent as regards production, because it is to the benefit of each that the total available for distribution shall be as large as possible. The interest of the working class in increase of output may be limited by other than economic considerations. They will not accept for the sake of increased wages methods of work which involve loss of self-respect or a narrowing of their life by undue restriction of leisure. To this extent the interest of the employer may be over-ridden by considerations of social welfare. The real conflict is between his economic interests as an employer of labor and the social interests of the community of which he is a member. But the employer and employed are both concerned in increased *efficiency* of production, which implies equal or improved output at less cost to the employer and with less strain to the employed. Here, too, it is to be noted that the

workman, as consumer, will benefit by any increase in the general efficiency of production.'

C. EFFICIENCY

315. Labor and Efficiency*

BY FREDERICK W. TAYLOR

It is safe to say that no system or scheme of management should be considered which does not in the long run give satisfaction to both employer and employee, which does not make it apparent that their best interests are mutual, and which does not bring about such thorough and hearty co-operation that they can pull together instead of apart. It cannot be said that this condition has as yet been at all generally recognized as the necessary foundation for good management. On the contrary, it is still quite generally regarded as a fact by both sides that in many of the most vital matters the best interests of employers are necessarily opposed to those of the men. In fact, the two elements which we will all agree are most wanted on the one hand by the men and on the other hand by the employers are generally looked upon as antagonistic.

What the workmen want from their employer beyond anything else is high wages, and what employers want from their workmen most of all is a low labor cost of manufacture.

These two conditions are not diametrically opposed to one another as would appear at first glance; on the contrary, they can be made to go together in all classes of work, without exception, and in the writer's judgment the existence or absence of these two elements forms the best index to either good or bad management.

The only condition which contains the elements of stability and permanent satisfaction is that in which both employer and employees are doing as well or better than their competitors are likely to do, and this in nine cases out of ten means high wages and low labor cost, and both parties should be equally anxious for these conditions to prevail. With them the employer can hold his own with the competitors at all times. Without them both parties may do well enough in busy times, but both parties are likely to suffer when work becomes scarce.

The possibility of coupling high wages with a low labor cost rests mainly upon the enormous difference between the amount of

*Adapted from "Shop Management," *Transactions of the Society of Mechanical Engineers*, XXIV (1903), 1343-47.

work which a first-class man can do under favorable circumstances and the work which is actually done by the average man.

That there is a difference between the average and first-class man is known to all employers, but that the first-class man can do in most cases two to four times as much as is done on an average is known to but few, and is fully realized only by those who have made a thorough and scientific study of the possibilities of men.

The writer has found this enormous difference between the first-class and average man to exist in all of the trades and branches of labor which he has investigated, and this covers a large field, as he, together with several of his friends, has been engaged with more than usual opportunities for twenty years past in carefully and systematically studying this subject.

It must be distinctly understood that in referring to the possibilities of a first-class man the writer does not mean what he can do when on a spurt or when he is overexerting himself, but what a good man can keep up for a long term of years without injury to his health, and become happier and thrive under.

The second and equally interesting fact upon which the possibility of coupling high wages with low labor cost rests, is that first-class men are not only willing but glad to work at their maximum speed, providing they are paid from 30 to 100 per cent more than the average of their trade.

The exact percentage by which the wages must be increased in order to make them work to their maximum is not a subject to be theorized over, settled by boards of directors, sitting in solemn conclave, nor voted upon by trade unions. It is a fact inherent in human nature and has only been determined through the slow and difficult process of trial and error.

The writer has found, for example, after making many mistakes above and below the proper mark, that to get the maximum output for ordinary shop work requiring neither especial brains, very close application, skill, nor extra hard work, such, for instance, as the more ordinary kinds of routine machine-shop work, it is necessary to pay about 30 per cent more than the average. For ordinary day labor requiring little brains or special skill, but calling for strength, severe bodily exertion and fatigue, it is necessary to pay from 50 to 60 per cent above the average. For work requiring special skill or brains, coupled with close application but without severe bodily exertion, such as the more difficult and delicate machinist's work, from 70 per cent to 80 per cent beyond the average. For work requiring skill, brains, close application, strength, and severe bodily

exertion, such, for instance, as that involved in running a well-run steam hammer doing miscellaneous work, from 80 per cent to 100 per cent beyond the average. Men will not work at their best unless assured a good liberal increase, which must be permanent.

It is the writer's judgment, on the other hand, that for their own good it is as important that workmen should not be very much overpaid, as that they should not be underpaid. If overpaid, many will work irregularly and tend to become more or less shiftless, extravagant, and dissipated. It does not do for most men to get rich too fast. The writer's observation, however, would lead him to the conclusion that most men tend to become more instead of less thrifty when they receive the proper increase for an extra hard day's work, as, for example, the percentages of increase referred to above. They live rather better, begin to save money, become more sober, and work more steadily. This certainly forms one of the strongest reasons for advocating this type of management.

316. The Nature of Scientific Management⁷

BY MAURICE L. COOKE

What we want in any industrial establishment, if we are to reach the highest point in productivity, is to have every individual use his highest powers to the best advantage. This is the final goal of scientific management. It is the goal both for the individual and for society. If you can picture a society in which every unit is using his highest faculties to the best advantage, you will see that it approximates the millennium.

The moment you adopt this as a standard, however, you must frame your organization so that every employee, from the humblest to the highest, is given a chance to exercise his highest powers to the best advantage. He must not only not be hindered, but he must be helped, and helped to the extent of pointing out and developing faculties and powers of which he may have been unaware. Under scientific management we think that we are learning how to do this. Alfred Marshall has called attention to the fact that perhaps half the brains of the world are in the so-called working classes and that "of this a great part is fruitless for want of opportunity." Under the new methods this great storehouse of wealth will be tapped, not we hope for the benefit of the few, but for the benefit of all.

⁷Adapted from "The Spirit and Social Significance of Scientific Management," *Journal of Political Economy*, XXI (1913), 485-87.

To define scientific management is no easy task. Hugo Diemer says that Mr. Taylor

considers a manufacturing establishment just as one would an intricate machine. He analyzes each process into its ultimate simple elements and compares each of these simplest steps or processes with an ideal or perfect condition. He then makes all due allowance for rational and practical conditions and establishes an attainable commercial standard for every step. The next process is that of attaining, continuously, the standard, involving both quality and interlocking, or assembling, of all these primal elements into a well-arranged, well-built, smooth-running machine.

Mr. Taylor says that the philosophy of scientific management is embraced under these four principles:

1. The development of a science in place of "rule of thumb" for each *element* of the work.
2. The scientific selection and training of the workman.
3. The bringing of the science and the scientifically trained workmen together through the co-operation of the management with the man.
4. An almost equal division of the work and the responsibility between the management and the workmen, the management taking over all work for which they are better fitted than the workmen, while in the past almost all of the work, and the greater part of the responsibility, were thrown upon the workman.

Quiet informally, scientific management may be thus defined:

1. It is a definite working policy applicable wherever human effort is put forth.
2. It is the introduction of the laboratory method in everyday affairs.
3. It is the acceptance of the dictates of science instead of those of personal opinion and tradition.
4. It is the establishment of the fact that not to know is no crime—that the crime is not being willing to find out.
5. It is a type of co-operation more intensive than the world has yet seen.
6. It is filling in—not bridging—the chasm between capital and labor.
7. It is making our industrial life square up with the best we know in our personal and social relations.
8. It involves a very radical change in the attitude both of the men and of the management to the work on which they are mutually engaged.

Practically everything that is done in developing scientific management in an establishment has for its object the setting of tasks. A task is simply a fair day's work and—let us not forget—one that can be repeated day in and day out, year in and year out, if necessary,

without detriment to the physical, mental and moral well-being of the person performing it. Unless you are able to set tasks you cannot have scientific management.

317. The Attitude of Organized Labor⁸

We are opposed to any system of shop management which requires one man to stand over another, timing him with a stop watch in order to speed him up beyond his normal capacity. In addition to the brutality of such a proceeding, no stop watch time study can possibly be accurate. Every physical act performed by man is preceded by a mental process. The greater the amount of skill required in the work, the greater the mental process preceding the physical expression of it, and there is no method known to efficiency engineers or others by which a time study can be made by a stop watch or any other time-measuring device of the mental process which precedes the physical act. The mental process being a necessary part of the work itself, the failure to make a time study of that operation of the work makes the study inaccurate, and secondly, worthless as a basis for computing compensation.

To establish a bonus or premium system upon such a time study is wrong, induces the workman to toil beyond his normal capacity, and the whole system has a tendency to wear the worker to a nervous wreck, destroy his physical and mental health, and ultimately land him as a charge upon the community in some of our eleemosynary institutions.

*Resolved,*⁹ That the Thirty-eighth Annual Convention of the American Federation of Labor reiterate its former position against the introduction of these systems of so-called "scientific management" and urge Congress to restore the language above referred to which was eliminated from the Naval Appropriation bill in the Senate and to incorporate the same anti-Taylor system proviso in the appropriation bills which have carried it heretofore.

318. Modern Industry and Craft Skill¹⁰

The one great asset of the wageworker has been his craftsmanship. We think of craftsmanship ordinarily as the ability to manipulate skilfully the tools and materials of a craft or trade. But true

⁸Resolutions passed by the National Convention of the American Federation of Labor, November 22, 1912.

⁹Unanimously adopted June 14, 1918.

¹⁰An editorial with the foregoing caption in the *International Moulders' Journal*, LI (1915), 197-98.

craftsmanship is much more than this. The really essential element in it is not manual skill and dexterity, but something stored up in the mind of the worker. This something is partly the intimate knowledge of the character and uses of the tools, materials, and processes of the craft which tradition and experience have given the worker. But beyond this and above this, it is the knowledge which enables him to understand and overcome the constantly arising difficulties that grow out of variations, not only in tools and materials, but in the conditions under which the work must be done.

In the past for the most part the skilful manipulation of the tools and materials of a craft and this craftsmanship of the brain have been bound up together in the person of the worker and have been his possession. It is this unique possession of craft knowledge and craft skill on the part of a body of wage workers—that is, their possession of these things and the employer's ignorance of them—that has enabled the workers to organize and force better terms from the employers. On this unique possession has depended more than on any other one factor the strength of trade-unionism and the ability of unions to improve the conditions of their members.

This being true, it is evident that the greatest blow that could be delivered against unionism and the organized workers would be the separation of craft knowledge from craft skill. For if the skilled use of tools could be secured from workmen apart from the craft knowledge which only years of experience can build up, the production of "skilled workmen" from unskilled hands would be a matter in almost any craft of but a few days or weeks; any craft would be thrown open to the competition of an almost unlimited labor supply; the craftsmen in it would be practically at the mercy of the employer.

Of late this separation of craft knowledge and craft skill has actually taken place in an ever-widening area and with an ever-increasing acceleration. Its process is shown in the two main forms which it has been taking. The first of these is the introduction of machinery and the standardization of tools, machinery, products, and process, which make production possible on a large scale and the specialization of the workmen. Each workman under such circumstances needs and can exercise only a little craft knowledge and a little craft skill. But he is still a craftsman, though only a narrow one and subject to much competition from below. The second form, more insidious and more dangerous than the first, but to the significance of which most of us have not yet become aroused, is the gathering up of all this scattered craft knowledge, systematizing it and concentrating it in the hands of the employer, and then doling

it out again in the form of minute instructions, giving to each worker only the knowledge needed for the mechanical performance of a particular relatively minute task. This process, it is evident, separates skill and knowledge even in their narrow relationship. When it is completed the worker is no longer a craftsman in any sense, but is an animated tool of the management. He has no need of special craft knowledge or craft skill, or any power to acquire them if he had, and any man who walks the streets is a competitor for his job.

There is no body of skilled workmen today safe from the one or the other of these forces tending to deprive them of their unique craft knowledge and skill. Only what may be termed frontier trades are dependent now on the all-round craftsman. These trades are likely at any time to be standardized and systematized and to fall under the influence of this double process of specialization. The problem thus raised is the greatest one which organized labor faces. For if we do not wish to see the American workmen reduced to a great semi-skilled and perhaps little organized mass, a new mode of protection must be found for the working conditions and standards of living which unionism has secured, and some means must be discovered for giving back to the worker what he is fast losing in the narrowing of the skill and the theft of his craft knowledge. It is another problem which the organized workmen must solve for themselves and society.

319. Scientific Management and Welfare¹¹

BY ROBERT FRANKLIN HOXIE

The more ultimate effects of scientific management upon wages, unemployment, and industrial peace are matters of pure speculation. During the period of transition, however, there can be little doubt of the results. The tendency will be toward a realignment of wages. The craftsmen, the highly trained workers, cannot hope to maintain their wage advantage over the semi-skilled and less skilled workers. There will be a leveling tendency. Whether this leveling will be up or down it is impossible to say. At present the writer believes scientific management is making the relatively unskilled more efficient than ever before, and that they are in general receiving greater earnings. It is evident, however, that the native efficiency of the working class must suffer from the neglect of apprenticeship, if no other means of industrial education is forthcoming. Scientific managers themselves have complained of the poor and lawless material from which they

¹¹Adapted from *Scientific Management and Labor*, pp. 133-36. Copyright by D. Appleton and Co., 1915.

must recruit their workers, compared with the efficient and self-respecting craftsmen who applied for employment twenty years ago.

Moreover, it must not be overlooked that the whole scheme of scientific management, especially the gathering up and systematization of the knowledge formerly the possession of the workmen, tends enormously to add to the strength of capitalism. This fact, together with the greater ease of replacement, must make the security and continuity of employment inherently more uncertain. It may not be such in fact, but, if not, the result will be by grace of the employer.

If generally increased efficiency is the result of scientific management, unemployment would, in the end, seem to become less a menace. But during the period of transition we should expect its increase. Not only must the old craftsmen suffer as a result of the destruction of their crafts, but, until scientific management finds itself able to control markets, its increased efficiency must result in gluts in special lines with resulting unemployment in particular trades and occupations. The writer was informed by a leading scientific management expert that one shop in six in a certain industry systematized by him could turn out all the product the market would carry. The result to the workers, if the statement be true, needs no explanation. Scientific management would seem to offer ultimate possibilities of better market control or better adaptation to market conditions, but the experience of the past year of depression indicates that at present no such possibility exists.

Finally, until unionism as it predominantly exists has been done away with or has undergone essential modifications, scientific management cannot be said to make for the avoidance of strikes and the establishment of industrial peace. Strikes seem less frequent in scientific management shops than elsewhere, but this is owing largely to the fact that organized workmen are on the whole little employed. So long as present-day unionism believes that scientific management means the destruction of their organizations, it will continue to oppose it energetically.

It has been said with much truth that scientific management is like the progressive invention of machinery in its effect upon workers and social conditions and welfare generally,—that it gives a new impulse to the industrial revolution and strengthens its general effects and tendencies. A chief characteristic of this revolution has been the breakdown of craftsmanship, the destruction of crafts, and the carrying of the modern industrial world forward toward an era of specialized workmanship and generally semi-skilled or less skilled workmen. Scientific management seems to be another force urging us forward toward this era and practically adapted to function in an age of

specialized and unskilled workmanship. Here we glimpse the great problem with which its spread and development confront modern society. No solution or series of solutions offered for this problem can be considered at all which does not meet the needs of such a situation. It is a long-time problem which requires a long-time solution.

What is really needed, under the circumstances, is not so much repression and direct control as social supplementation and increased knowledge. The main demands are for a frank recognition of the trend of events and for some method of putting back into the worker's life the content which he is losing as the result of increased specialization and the abandonment of the old apprenticeship system. The development of such a method will, of course, take time. In the meanwhile, we need more thorough study and general publicity concerning the true character, policies, and methods of scientific management, its possibilities and limitations; concerning the real character, intelligence, and spirit of those engaged in its application, the qualities and qualifications required by the best social standards for the exercise of this power and responsibility, and the progressive education of scientific management experts and employers, labor and the public, to the needs and requirements of the situation.

320. Employment Management¹²

It has taken the exigencies of war to bring home to employers the imperative need for expert administration of their labor problems. In the lag times of peace they were somehow able to muddle through. But the new war industries requires not only men, but skilled men in excess of the available supply. Our industrial army is undergoing an expansion parallel to the expansion of the military force.

Today this expertness is being developed by high specialization, by setting up a fourth major department in our factories—a personnel or employment management department to supplement the financial, production, and sales departments. Executives competent to take charge of these personnel departments are consequently in great demand. In response to this demand the War Department has instituted training classes for employment managers in a number of technical schools and universities.

The birth of the National Employment Managers' Association, a national organization to sponsor the movement for trained personal executives, is tantamount to the birth of a new profession. It

¹²Adapted from "The Rise of a New Profession," *New Republic*, XV, 102-3. Copyright, 1918.

promises the development of a body of technique and method in the long neglected field of labor administration, for the competent application of which a rigorous professional training and professional status are essential. This is in line with the specializing tendency which in the last quarter-century has created the professions of accountancy, industrial engineering, and scientific management.

But once this becomes a fact, once it is admitted that there is a body of technical knowledge capable of transmission, serious questions arise as to the field and controlling point of view of the new profession. The human equation is distinctly not of the same character as the problems of cost accounting, arrangement of machinery, and routing of work. The handling of human beings, the adjustment of subtle human relationships, is fundamentally a problem where the interests served by the personnel executive and the ulterior motives animating his handling of men inevitably determine his point of view and procedure.

The province of the personnel manager, is to administer the selection and discharge of employees, the development of sources of competent labor, the improvement of working conditions, and the determination of equitable standards of output in relation to pay. While, of course, this conception involves the permeation of the entire factory organization by the human interest of the personnel executive, it means specifically that the employment manager is charged with responsibility for four problems—selection, training, payment, discharge.

321. Industrial Physiology¹⁸

BY FREDERIC S. LEE

In surveying the extraordinary growth of industry during recent decades one cannot fail to be struck by its many-sided aspects, the diversity of its problems, and the variety of human intellects that have been called upon to solve these problems. Industry is not simply an affair of employer and employees; it has its manufacturing aspects, its economic aspects, its engineering aspects, its medical aspects, its chemical aspects, its human aspects, and its efficiency aspects. Quite recently its aspects of efficiency have risen into great prominence. What has been called scientific management has accomplished something in promoting industrial efficiency, but a critical analysis of it reveals its inability to go far in eliminating inefficiency.

The fact must be recognized that in the body of the worker, with its combination of living organs and tissues, undergoing chemical reactions and transforming energy under the direction of a nervous

¹⁸Adapted from "The New Science of Industrial Physiology," *Public Health Reports* (1919), XXXIV, 723-28.

system, we have a very intricate mechanism, upon the proper working of which depends, in large degree, industrial efficiency. The war, with its extraordinary call upon human energies, has emphasized as never before the hygienic or, more properly speaking, the physiological aspects of industrial activity. During the past few years the beginnings of a new science, an industrial physiology, have appeared and attracted the attention of scientific men and the more sagacious of industrial leaders.

By "industrial physiology" I mean to designate the sum of knowledge pertaining to the working of the human mechanism in industrial activity. It has two objects: First, the scientific one of learning how the industrial worker actually performs his work and what the conditions are under which he can work most efficiently, while at the same time maintaining his body in health and in the best working condition; second, the more practical one of establishing in the factories the conditions which conduce at the same time to the maximum output and the maximum power of the worker. The former of these objects is now being achieved; the latter will be achieved when it becomes clear to both employers and workmen that it is an advantage to both that industrial work be organized on an intelligent basis.

The methods by which industrial physiology are being developed are the recognized methods of all scientific investigation, namely, observation and experiment. The investigations are carried on chiefly in the factories, the workers being used as the subjects and under their actual working conditions, these conditions being changed when it is desired to compare the efficiency of one set of conditions with that of another. Exact measurements of output are made, and, where it is possible, exact tests of the physiological effects of the work are employed. Every effort is made to procure exact data and utilize these as a basis for forming conclusions rather than to rely upon mere opinion and preconceived notion.

Some of the topics that have been or are being investigated and some of the results are the following:

Certain physiological and psychological tests have been employed with workers, and it appears practicable to employ some of these tests in selecting workers and assigning them to jobs.

The output of the successive hours of the working-day in different types of operations have been measured and the daily curves of the output have been plotted. These vary with the kind of operation, but are alike in showing a reduced efficiency as the day proceeds.

Reduction in the length of the working-day is characterized by an increase in output of the successive hours and usually by a total increase in that of the day. The optimum duration of work probably varies with the character of work itself.

The introduction of resting periods in the working spell is accompanied especially when the working-day is long, by a total increase in the day's production. A five-hour working spell, unbroken, is probably always too long.

Overtime following a day of labor is probably inadvisable, as is also Sunday work following a week's labor. These tend to impair the working power of the worker.

A hot day tends to impair strength and reduce output. Every effort should be made to keep the body of the worker cool.

Night work is, in general, less efficient than day work. Its total output is less, and this, with a long working-night, falls off enormously in the early morning hours. Alternation of periods of night work with periods of day work is more profitable than continuous night work.

Women are capable of a greater variety of industrial occupations than has hitherto been recognized. Their problem is not of their greater or less general efficiency than men, but rather of what type of work they are best fitted for.

Accidents to workers are a great source of inefficiency. They are caused by fatigue, inexperience, speed, insufficient lighting, high temperature, and like factors.

Food and efficiency are directly connected with one another.

A high labor turnover is incompatible with efficiency. It is expensive, entailing high cost of training, and is a serious cause of accidents.

With the ending of the war the problems of industry press for solution more earnestly than ever. One of the most timely of these concerns the physiological aspects of the human machine. Upon us in America there is imposed a grave duty—that of directing investigation along such lines that empiricism and tradition, two obstacles long potent in industrial evolution, shall be cast out and industry shall be placed permanently upon a scientific basis.

D. ORDER

322. Joint Standing Industrial Councils¹⁴

We have the honor to submit the following interim report on joint standing industrial councils:

2. The terms of reference to the subcommittee are:

(1) To make and consider suggestions for securing a permanent improvement in the relations between employers and workmen.

¹⁴The Interim Report by the Committee on Relations between Employers and Employees (the Whitley Committee) of the British Ministry of Reconstruction (1917).

In all this committee issued six published statements, of which this is the first. The second dealt with joint standing industrial councils for unorganized

(2) To recommend means for securing that industrial condition affecting the relations between employers and workmen shall be systematically revised by those concerned, with a view to improving conditions in the future.

3. After a general consideration of our duties in relation to the matters referred to us, we decided first to address ourselves to the problem of establishing permanently improved relations between employers and employed in the main industries of the country, in which there exist representative organizations on both sides. The present report accordingly deals more especially with these trades. We are proceeding with the consideration of the problems connected with the industries which are less well organized.

4. We appreciate that under the pressure of the war both employers and workpeople and their organizations are very much pre-occupied, but, notwithstanding, believe it to be of the highest importance that our proposals should be put before those concerned without delay, so that employers and employed may meet in the near future and discuss the problems before them.

5. The circumstances of the present time are admitted on all sides to offer a great opportunity for securing a permanent improvement in the relations between employers and employed, while failure to utilize the opportunity may involve the nation in grave industrial difficulties at the end of the war.

It is generally allowed that the war enforced some reconstruction of industry, and in considering the subjects referred to us we have kept in view the need for securing in the development of reconstruction the largest possible measures of co-operation between employers and employed.

In the interests of the community it is vital that after the war the co-operation of all classes, established during the war, should continue, and more especially with regard to the relations between employers and employed. For securing improvement in the latter, it is essential that any proposals put forward should offer to workpeople the means of attaining improved conditions of employment and a higher standard of comfort generally, and involve the enlistment of their active and continuous co-operation in the promotion of industry.

To this end, the establishment for each industry of an organization, representative of employers and workpeople, to have as its

trades. An adaptation of the third, or supplementary report is given in the next selection. The fourth was a memorandum on industrial councils and trade boards; the fifth a report upon conciliation and arbitration; and the sixth a "final report" that does little more than summarize the other published reports.

object the regular consideration of matters affecting the progress and well-being of the trade from the point of view of all those engaged in it, so far as this is consistent with the general interest of the community, appears to us necessary.

6. Many complicated problems have arisen during the war which have a bearing both on employers and workpeople, and may affect the relations between them. It is clear that industrial conditions will need careful handling if grave difficulties and strained relations are to be avoided after the war has ended. The precise nature of the problems to be faced naturally varies from industry to industry, and even from branch to branch within the same industry. Their treatment consequently will need an intimate knowledge of the facts and circumstances of each trade, and such knowledge is to be found only among those directly connected with the trade.

7. With a view to providing means for carrying out the policy outlined above, we recommend that His Majesty's government should propose without delay to the various associations of employers and employed the formation of joint standing industrial councils in the several industries, where they do not already exist, composed of representatives of employers and employed, regard being to the various sections of the industry and the various classes of labor engaged.

8. The appointment of a chairman or chairmen should, we think, be left to the council who may decide that there should be: (1) a chairman for each side of the council; (2) a chairman and vice chairman selected from the members of the council (one from each side of the council); (3) a chairman chosen by the council from independent persons outside the industry; or (4) a chairman nominated by such person or authority as the council may determine or, failing agreement, by the government.

9. The council should meet at regular and frequent intervals.

10. The object to which the consideration of the councils should be directed should be appropriate matters affecting the several industries and particularly the establishment of a closer co-operation between employers and employed. Questions connected with demobilization will call for early attention.

11. One of the chief factors in the problem, as it at first presents itself, consists of the guaranties given by the government, with parliamentary sanction, and the various undertakings entered into by employers, to restore the trade-union rules and customs suspended during the war. While this does not mean that all the lessons learned during the war should be ignored, it does mean that the definite co-operation and acquiescence by both employers and employed must be a condition of any setting aside of these guaranties or undertakings,

and that, if new arrangements are to be reached, in themselves more satisfactory to all parties but not in strict accordance with the guaranties, they must be the joint work of employers and employed.

12. The matters to be considered by the councils must inevitably differ widely from industry to industry, as different circumstances and conditions call for different treatment, but we are of opinion that the suggestions set forth below ought to be taken into account, subject to such modification in each case as may serve to adapt them to the need of the various industries.

13. In the well-organized industries, one of the first questions to be considered should be the establishment of local and works organizations to supplement and make more effective the work of the central bodies. It is not enough to secure co-operation at the center between the national organizations; it is equally necessary to enlist the activity and support of employers and employed in the districts and in individual establishments. The national industrial council should not be regarded as complete in itself; what is needed is a triple organization—in the workshops, the districts, and nationally. Moreover, it is essential that the organization at each of these three stages should proceed on a common principle, and that the greatest measure of common action between them should be secured.

14. With this end in view, we are of opinion that the following proposals should be laid before the national industrial councils:

a) That district councils, representative of the trade-unions and of the employers' associations in the industry, should be created, or developed out of the existing machinery for negotiation in the various trades.

b) That works committees, representative of the management and of the workers employed, should be instituted in particular works to act in close co-operation with the district and national machinery.

As it is of the highest importance that the scheme making provision for these committees should be such as to secure the support of the trade-unions and employers' associations concerned, its design should be a matter for agreement between these organizations.

Just as regular meetings and continuity of co-operation are essential in the case of the national industrial councils, so they seem to be necessary in the case of the district and works organizations. The object is to secure co-operation by granting workpeople a greater share in the consideration of matters affecting their industry, and this can only be achieved by keeping employers and workpeople in constant touch.

15. The respective functions of works committees, district councils, and national councils will no doubt require to be determined separately in accordance with the varying conditions of different industries. Care will need to be taken in each case to delimit accurately their respective functions, in order to avoid overlapping and resulting friction. For instance, where conditions of employment are determined by national agreements, the district councils or works committees should not be allowed to contract out of conditions, so laid down, nor, where conditions are determined by local agreements, should such power be allowed to works committees.

16. Among the questions with which it is suggested that the national councils should deal or allocate to district councils or works committees the following may be selected for special mention:

a) The better utilization of the practical knowledge and experience of the workpeople.

b) Means for securing to the workpeople a greater share in and responsibility for the determination and observance of the conditions under which their work is carried on.

c) The settlement of the general principles governing the conditions of employment, including the methods of fixing, paying, and readjusting wages, having regard to the need for securing to the workpeople a share in the increased prosperity of the industry.

d) The establishment of regular methods of negotiations for issues arising between employers and workpeople, with a view both to the prevention of differences and to their better adjustment when they appear.

e) Means of insuring to the workpeople the greatest possible security of earnings and employment, without undue restriction upon change of occupation or employer.

f) Methods of fixing and adjusting earnings, piecework prices, etc., and of dealing with the many difficulties which arise with regard to the method and amount of payment apart from the fixing of general standard rates, which are already covered by paragraph c).

g) Technical education and training.

h) Industrial research and the full utilization of its results.

i) The provision of facilities for the full consideration and utilization of inventions and improvements designed by workpeople and for the adequate safe-guarding of the rights of the designers of such improvements.

j) Improvements of processes, machinery, and organization and appropriate questions relating to management and the examination of industrial experiments, with special reference to co-operation in carrying new ideas into effect and full consideration of the workpeople's point of view in relation to them.

k) Proposed legislation affecting the industry.

17. The methods by which the functions of the proposed councils should be correlated to those of joint bodies in the different districts, and in the various works within the districts, must necessarily vary according to the trade. It may, therefore, be the best policy to leave it to the traders themselves to formulate schemes suitable to their special circumstances, it being understood that it is essential to secure in each industry the fullest measure of co-operation between employers and employed, both generally, through the national councils, and specifically, through district committees and workshop committees.

18. It would seem advisable that the government should put the proposals relating to national industrial councils before the employers' and workpeople's associations and request them to adopt such measures as are needful for their establishment where they do not already exist. Suitable steps should also be taken, at the proper time to put the matter before the general public.

19. In forwarding the proposals to the parties concerned, we think the government should offer to be represented in an advisory capacity at the preliminary meetings of a council, if the parties so desire. We are also of opinion that the government should undertake to supply to the various councils such information on industrial subjects as may be available and likely to prove of value.

20. It has been suggested that means must be devised to safeguard the interests of the community against possible action of an anti-social character on the part of the councils. We have, however, here assumed that the councils, in their work of promoting the interests of their own industries, will have regard for the national interest. If they fulfil their functions they will be the best builders of national prosperity. The state never parts with its inherent over-riding power, but such power may be least needed when least obtruded.

21. It appears to us that it may be desirable at some later stage for the state to give the sanction of law to agreements made by the councils, but the initiative in this direction should come from the councils themselves.

22. The plans sketched in the foregoing paragraphs are applicable in the form in which they are given only to industries in which there are responsible associations of employers and workpeople which can claim to be fairly representative. The case of the less well-organized trades or sections of a trade necessarily needs further consideration. We hope to be in a position shortly to put forward recommendations that will prepare the way for the active utilization in these trades of the same practical co-operation as is foreshadowed in the proposals made above for the more highly organized trades.

23. It may be desirable to state here our considered opinion that an essential condition of securing a permanent improvement in the relations between employers and employed is that there should be adequate organization on the part of both employers and workpeople. The proposals outlined for joint co-operation throughout the several industries depend for their ultimate success upon there being such organization on both sides; and such organization is necessary also to provide means whereby the arrangements and agreements made for the industry may be effectively carried out.

24. We have thought it well to refrain from making suggestions or offering opinions with regard to such matters as profit-sharing, copartnership, or particular systems of wages, etc. It would be impracticable for us to make any useful general recommendations on such matters, having regard to the varying conditions in different trades. We are convinced, moreover, that a permanent improvement in the relations between employers and employed must be founded upon something other than a cash basis. What is wanted is that the workpeople should have a greater opportunity of participating in the discussion about and adjustment of those parts of industry by which they are most affected.

25. The schemes recommended in this report are intended not merely for the treatment of industrial problems when they have become acute, but also, and more especially, to prevent their becoming acute. We believe that regular meetings to discuss the industrial questions, apart from and prior to any differences with regard to them that may have begun to cause friction, will materially reduce the number of occasions on which, in the view of either employers or employed, it is necessary to contemplate recourse to a stoppage of work.

26. We venture to hope that representative men in each industry with pride in their calling and care for its place as a contributor to the national well-being, will come together in the manner here suggested, and apply themselves to promoting industrial harmony and efficiency and removing the obstacles that have hitherto stood in the way.

323. The Organization of Works Committees¹⁵

In our first and second reports we have referred to the establishment of works committees, representative of the management and of the workpeople, and appointed from within the works, as an essential

¹⁵Adapted from Supplementary (the third) Report on Works Committees issued by the Committee on Relations (the Whitley Committee) between Employers and Employed of the British Ministry of Reconstruction, 1917.

part of the scheme of organization suggested to secure improved relations between employer and employed. The purpose of the present report is to deal more fully with the proposal to institute such committees.

2. Better relations between employers and their workpeople can best be arrived at by granting to the latter a greater share in the consideration of matters with which they are concerned. In every industry there are certain questions, such as rates of wages and hours of work, which should be settled by district or national agreement, and with any matter so settled no works committee should be allowed to interfere; but there are also many questions closely affecting daily life and comfort in, and the success of, the business, and affecting in no small degree efficiency of working, which are peculiar to the individual workshop or factory. The purpose of a works committee is to establish and maintain a system of co-operation in all these workshop matters.

3. We have throughout our recommendations proceeded upon the assumption that the greatest success is likely to be achieved by leaving to the representative bodies of employers and employed in each industry the maximum degree of freedom to settle for themselves the precise form of council or committee which should be adopted, having regard in each case to the particular circumstances of the trade; and, in accordance with this principle, we refrain from indicating any definite form of constitution for the works committee. Our proposals as a whole assume the existence of organizations of both employers and employed, and a frank and full recognition of such organizations. Works committees established otherwise than in accordance with these principles could not be regarded as a part of the scheme we have recommended, and might, indeed, be a hindrance to the development of the new relations in industry to which we look forward. We think that the aim should be the complete and coherent organization of the trade on both sides, and works committees will be of value in so far as they contribute to such a result.

4. We are of opinion that the complete success of works committees necessarily depends largely upon the degree and efficiency of organization in the trade, and upon the extent to which the committees can be linked up, through organizations that we have in mind, with the remainder of the scheme which we are proposing, viz., the district and national councils. We think it important to state that the success of the works committees would be very seriously interfered with if the idea existed that such committees were used, or likely to be used, by employers in opposition to trade unionism. It is strongly

felt that the setting up of works committees without the co-operation of the trade-unions and the employers' associations in the trade or branch of trade concerned would stand in the way of the improved industrial relationships which in these reports we are endeavoring to further.

5. In an industry where the workpeople are unorganized, or only very partially organized, there is a danger that works committees may be used, or thought to be used, in opposition to trade-unionism. It is important that such fears should be guarded against in the initiation of any scheme. We look upon successful works committees as the broad base of the industrial structure which we have recommended, and as the means of enlisting the interest of the workers in the success both of the industry to which they are attached and of the workshop or factory where so much of their life is spent. These committees should not, in constitution or methods of working, discourage trade organizations.

6. Works committees, in our opinion, should have regular meetings, at fixed times, and, as a general rule, not less frequently than once a fortnight. They should always keep in the forefront the idea of constructive co-operation in the improvement of the industry to which they belong. Suggestions of all kinds tending to improvement should be frankly welcomed and freely discussed. Practical proposals should be examined from all points of view. There is an undeveloped asset of constructive ability—valuable alike to the industry and to the state—awaiting the means of realization; problems, old and new, will find their solution in a frank partnership of knowledge, experience, and good-will. Works committees would fail in their main purpose if they existed only to smooth over grievances.

7. We recognize that, from time to time, matters will arise which the management or the workmen consider to be questions they cannot discuss in these joint meetings. When this occurs we anticipate that nothing but good will come from the friendly statement of the reasons why the reservation is made.

8. We regard the successful development and utilization of works committees in any business on the basis recommended in this report as of equal importance with its commercial and scientific efficiency; and we think that in every case one of the partners or directors, or some other responsible representative of the management, would be well advised to devote a substantial part of his time and thought to the good working and development of such a committee.

9. There has been some experience, both before the war and during the war, of the benefits of works committees, and we think it should be recommended most strongly to employers and employed that, in connection with the scheme for the establishment of national and district industrial councils, they should examine this experience with a view to the institution of works committees on proper lines, in works where the conditions render their formation practicable. We have recommended that the Ministry of Labor should prepare a summary of the experience available with reference to works committees, both before and during the war, including information as to any rules or reports relating to such committees, and should issue a memorandum thereon for the guidance of employers and workpeople generally, and we understand that such a memorandum is now in course of preparation.

10. In order to insure uniform and common principles of action, it is essential that where national and district industrial councils exist the works committees should be in close touch with them, and the scheme for linking up works committees with the councils should be considered and determined by the National Councils.

11. We have considered it better not to attempt to indicate any specific form of works committees. Industrial establishments show such infinite variation in size, number of persons employed, multiplicity of departments, and other conditions, that the particular form of works committees must necessarily be adapted to the circumstances of each case. It would, therefore, be impossible to formulate any satisfactory scheme which does not provide a large measure of elasticity.

We are confident that the nature of the particular organization necessary for the various cases will be settled without difficulty by the exercise of good-will on both sides.

324. National Councils for Industries¹⁶

The Whitley Report on Joint Standing Industrial Councils, in discussing the constitution and functions of such councils, recommended that it should be left to the trades themselves to constitute schemes suitable to their special circumstances. The object of the following memorandum is to put forward certain suggestions which may serve as a basis for discussion and help in concentrating attention upon some outstanding points in the relations of employers and workpeople which must be taken into consideration in the actual

¹⁶Adapted from "Industrial Councils," *Industrial Reports*, No. 4, pp. 3-7, issued by the (British) Ministry of Labor, 1919.

formation of a council. Many of the clauses which follow are drawn from constitutions already drafted.

The functions of a joint industrial council are:

1. To secure the largest possible measure of joint action between employers and workpeople for the development of the industry as a part of national life and for the improvement of the conditions of all engaged in industry. Among its more specific objects will be the following:

2. Regular consideration of wages, hours, and working conditions in the industry as a whole.

3. The consideration of measures for regularizing production and employment.

4. The consideration of the existing machinery for the settlement of differences between different parties and sections in the industry, and the establishment of machinery for this purpose where it does not already exist, with the object of securing the speedy settlement of difficulties.

5. The consideration of measures for securing the inclusion of all employers and workpeople in their respective associations.

6. The collection of statistics and information on matters appertaining to the industry.

7. The encouragement of the study of processes and design and of research, with a view to perfecting the products of the industry.

8. The provision of facilities for the full consideration and utilization of inventions and any improvement in machinery or method, and for the adequate safeguarding of the rights of the designers of such improvements, and to secure that such improvement in method shall give to each party an equitable share of the benefits financially or otherwise arising therefrom.

9. Inquiries into special problems in the industry, including the comparative study of the organization and methods of the industry in this and other countries, and, where desirable, the publication of reports. The arrangements of lectures and the holding of conferences on subjects of general interest to the industry.

10. The improvement of the health conditions obtaining in the industry and the provision of special treatment where necessary for workers in the industry.

11. The supervision of entry into, and training for, the industry, and co-operation with the educational authorities in arranging education in all its branches for the industry.

12. The issue to the press of authoritative statements upon matters affecting the industry of general interest to the community.

13. Representation of the needs and opinions of the industry to the government, governmental departments, and other industries.

14. The consideration of any other matters that may be referred to it by the government or any government department.

15. The considerations of the proposals for district councils and works committees, put forward in the Whitley Report, having regard in each case to any such organizations as may already be in existence.

16. Co-operation with the Joint Industrial Councils for other industries to deal with problems of common interest.

325. A National Industrial Council¹⁷

The committee are impressed with the importance of establishing without delay some form of permanent representative national industrial council. The considered views of the committee are as follows:

Preamble.—A national industrial council should not supersede any of the existing agencies for dealing with industrial questions. Its object would be to supplement and co-ordinate the existing sectional machinery by bringing together the knowledge and experience of all sections and focusing them upon the problems that affect industrial relations as a whole. Its functions, therefore, would be advisory.

Such a council would have to be large to give due representation to all industrial interests concerned; at the same time, it should be as small as is consistent with an adequate representative basis. Since in any case it would be too large for the transaction of detailed business, a standing committee, large enough to insure that it will not be unrepresentative, will be needed. The council must be elected, not nominated; otherwise its authority will not be adequate to the proper handling of its functions.

In order that the council may have the necessary independent status and authority if it is to promote industrial peace, the government should recognize it as the official consultative authority to the government upon industrial relations, and should make it the normal channel through which the opinion and experience of industry will be sought on all questions with which industry as a whole is concerned.

In addition to advising the government the council should, when it is thought fit, issue statements on industrial questions or disputes for the guidance of public opinion.

Objects.—To secure the largest possible measure of joint action between the representative organizations of employers and work-people, and to be the normal channel through which the opinion and

¹⁷Adapted from the "Report of the Industrial Conference Provisional Joint Committee" adopted by the (British) National Industrial Conference, at Central Hall, Westminster, April 4, 1919.

experience of industry will be sought by the government on all questions affecting industry as a whole.

It will be open to the council to take any action that falls within the scope of this general definition. Among the more specific objects will be: (a) the consideration of general questions affecting industrial relations; (b) the consideration of measures for joint or several action to anticipate and avoid threatened disputes; (c) the consideration of actual disputes affecting industrial relations; (d) the consideration of legislative proposals affecting industrial relations; (e) to advise the government on industrial questions and on the general industrial situation; (f) to issue statements for the guidance of public opinion on industrial issues.

Constitutions.—The council: 1. The council shall consist of four hundred members fully representative of and duly accredited by the employers' organizations and the trade-unions, to be elected one-half by each of the two.

2. The method of election and the allocation of representatives shall be determined by each side for itself.

3. Members of the council shall retire annually, and shall be eligible for re-election by the organizations which they represent.

4. The council shall meet at least twice a year, and in addition as often as the standing committee deem it to be necessary.

5. The minister of labor shall be president of the council and shall, when possible, preside at its meetings. There shall be three vice-presidents, one appointed by the government to be chairman of the standing committee, one elected by and from the employers' representatives on the council, and one elected by and from the trade-unions' representatives. In the absence of the president, the chairman of the standing committee shall preside, in his absence one of the other vice-presidents.

6. The two sides of the council shall vote separately, and no resolution shall be declared carried unless approved by a majority of those present on each side. Each side shall determine for itself the method of voting.

7. The expenses of the council shall be borne by the government.

8. The council shall be empowered to make standing orders for the conduct of its business.

The standing committee: 1. There shall be a standing committee of the council, consisting of twenty-five members elected by and from the employers' representatives, and twenty-five elected by and from the trade-union representatives.

2. The mode of election of members shall be determined by each side of the council for itself.

3. The standing committee shall be empowered to take such action as it deems to be necessary to carry out the objects of the council. It shall consider any questions referred to it by the council or the government, and shall report to the council its decisions.

4. The standing committee shall be empowered to appoint an emergency committee and such subcommittees as may be necessary.

5. The standing committee shall be empowered to co-opt representatives of any trade not directly represented upon it for the consideration of any question affecting that trade.

6. The standing committee shall meet as often as may be necessary, and at least once a month.

7. The government shall appoint a chairman to the standing committee who shall preside at its meetings, but shall have no vote. There shall be two vice-chairmen, elected respectively by and from the representatives of the employers and the trade-unions. In the absence of the chairman the vice-chairmen shall preside in turn.

8. The standing committee shall be empowered to appoint such secretaries and other officials as may be necessary.

9. The standing committee shall be empowered to make standing orders for the conduct of its business.

10. The expenses of the standing committee shall be borne by the government.

E. POLITICS

326. Instincts and Employment¹⁸

BY IRVING FISHER

1. *The instinct of self-preservation.*—Maintain healthy working conditions. Guard against overfatigue. Provide safety devices. No man can do his work well if he feels it is fitting him only for the scrap heap.

Provide a living wage.

Assure your men of steady jobs as long as they do their part. Let them know that, if laid off without any fault of theirs, they will be given due notice or a suitable dismissal wage. Energy dissipated in worry means loss to all concerned.

2. *The instinct of workmanship.*—Find the right job, mentally and physically, for every man, and the right man for every job.

Enable the man by exact records to have a true and accurate picture of his work and of any improvement he makes in it.

Encourage the workman to suggest improvements in the processes and thus stimulate personal interest.

¹⁸From "How Can the Employer Help the Worker Satisfy His Fundamental Instinct." Published by Industrial Department, Y.M.C.A., of New Haven, 1918.

Guard against the tendency to let the workers slip into dead-end jobs. Make it plain that efficiency means advancement.

Encourage promotions and the development of all-round ability.

Make your directions to workmen clear, concrete, and specific, and have a well thought-out plan of work.

3. *The instinct of respect.*—Utilize the records of work to give the credit and standing which a good record deserves in the eyes of the employer and of fellow-workmen. The spirit of rivalry spurs initiative.

Avoid calling a man down, especially before his fellow-workers.

So far as possible use praise as the chief incentive rather than blame or threat of dismissal.

Consider a man trustworthy until he has proved himself untrustworthy. Even-handed justice is recognized by saint and sinner.

4. *The instinct of loyalty.*—Develop a team spirit.

Mass activities, group singing, marching in a parade, going on a picnic, wearing a button, or cheering a baseball team will foster a united feeling.

Stimulate pride in the organization. Pride is a weatherproof cement.

Make the organization worth being loyal to. Loyalty is based on justice and mutual consideration. Prove to the workman that you respect his rights and wishes. Put yourself in his place.

If you want overtime or special consideration from him let him, if possible, have the fun of volunteering the service.

5. *The instinct of play.*—"All work and no play makes Jack a dull boy." The balanced life demands recreation which provides a safety valve for many inevitably repressed instincts. This play should not be frivolity, still less dissipation, but entertainment which will develop physical and mental health and a broadened outlook on life.

Encourage membership on athletic teams, attendance at good movies, at reading rooms, and clubs. Have singing at the noon hour, and calisthenics to interrupt the morning and the afternoon. At the least, try brief rest periods.

6. *The instinct of love.*—Conditions of employment should, in every possible way, conduce to happy family life. The unrest caused by bad instinctive life outside the plant is demoralizing.

Do not arouse resentment by any action which affects the family welfare.

A workman without a home or a happy home is unstable.

7. *The instinct of worship.*—"Man shall not live by bread alone." No man should be compelled to do work which will prevent attendance at church or inspiring public meeting, or crush idealism, or warp the spirit of humanity and service.

Every man should have a religion; and his daily work should be uplifted by, and really be a part of, his religion.

In a word, your employee is a man with the same fundamental human nature as yourself. Remember that his primitive instincts can be guided but not suppressed. If you would have him loyal, efficient, and contented, give him the opportunity to give expression to the best that is in him. Without self-expression no man can lead a normal life. It is his initiative which you should aim to encourage. This is not paternalism, which is always resented. It is the opposite.

When the worker can be given a stake in the business and a voice in its management almost all the important motives are enlisted and strengthened—the motives of money-making, of accumulating, creating, gaining credit, team play.

Afford an opportunity for presenting grievances and for their adjustment.

327. The Midvale Plan¹⁹

In order to establish a representative system which will provide a regular means of communication and conference between the officials and the employees of these companies, the following plan is hereby adopted:

I. PLAN OF REPRESENTATION OF EMPLOYEES

1. For the convenient administration of this plan, each plant shall be divided into as many divisions as may be decided upon by the division representatives of each plant, on the basis of one representative for each 300 men. If any division shall have 150 men in excess of 300 or multiple of 300 it shall be entitled to a representative for such fraction. In case the fraction is less than 150 it shall not be counted unless merged with a similar fraction from another division.

The foregoing representation shall be based upon the average number of employees of each division, as shown on the books of the company for the three months, October, November, and December, preceding the election.

For the purpose of determining the proper representation of each division, the Plant Conference Committee hereinafter constituted, shall have access to the records of the time offices of the plant.

2. *Annual election of employees' representatives.*—Employees in each division shall elect annually from among their number, representatives as set forth in clause 1 to act on their behalf in all matters

¹⁹Plan of representation of employees of Midvale Steel and Ordnance Company, Cambria Steel Company, and subsidiary companies, effective October 1, 1918.

pertaining to conditions of employment, the adjustment of differences, and all other matters affecting the relation of the employees to the company.

3. *Annual election of representatives.*—The annual election of representatives shall be held on the second Monday of January of each year, and the nomination of representatives shall be held at least two days preceding the election. The meetings for the nomination and election shall be called by direction of the Plant Conference Committee hereinafter constituted. Notices of the nomination and election, indicating the number of representatives to be elected in each division, shall be publicly posted in each subdivision of the works a week in advance of such meetings, and shall state that all employees are entitled to vote, with the exception of salaried foremen and superintendents. Special elections shall be similarly called, when for any reason a vacancy occurs in the representation of any division.

4. *Nomination and election of representatives.*—To insure absolute freedom of choice, both nomination and election shall be by secret ballot, under conditions insuring an impartial count. The company shall, if requested, provide ballot boxes. It shall also, if requested, provide blank ballots for purposes of nomination, and also ballots, differing in form or color, for purposes of election. Each employee entitled to vote, shall be given a nomination blank by the election officers, on which he shall write the names of the fellow-employees in his division whom he desires to nominate as representatives, and will himself deposit the nomination blank in the ballot box. Each employee may nominate representatives to the number to which the division is entitled, in accordance with public notice. Employees unable to write may ask any of their fellow-employees to write for them on their ballots names of the persons whom they desire to nominate.

In the event of any nomination paper containing more than the number of representatives to which the division is entitled the ballot shall be void. Persons to the number of twice as many representatives as the division is entitled to receiving the highest number of nomination votes shall be regarded as the duly nominated candidates for employees' representatives, and shall be voted upon as hereinafter provided. For example, if the division is entitled to two representatives the four persons receiving the largest number of nomination votes shall be regarded as the duly nominated candidates. If the division is entitled to three representatives, then the six persons receiving the largest number, etc.

5. *Nomination and election of representatives.*—For the purposes of inaugurating this plan, the division representatives elected

at the various plants on Monday, September 23, 1918, shall hold office until their successors are elected on the second Monday of January, 1919. All nominations and elections thereafter shall be under the supervision of an Election Committee of three for each division, to be selected by the Plant Conference Committee hereinafter constituted.

The Election Committee shall count the nominating ballots, make a list showing the number of votes cast for each person, and post notices, signed by each member of the committee, at suitable places in the division, giving the number of votes cast for each person and announcing the names of the nominees, as provided in clause 4. These notices shall be posted at least forty-eight hours in advance of the election. On the date designated, the election of representatives shall be held by secret ballot, from among the number of candidates nominated.

The election ballots shall be counted by the Division Election Committee, and one list in triplicate, showing the number of votes cast for each person, shall be prepared by the Division Election Committee and signed by each member thereof, one of which lists shall be posted in a conspicuous place in the division, one forwarded to the general superintendent as evidence that the persons elected are duly accredited, and one list retained by the committee. The persons showing by such certified lists to have been elected as provided in clause 4, shall be the representatives of the division for the ensuing year, or until their successors are elected.

6. The Division Election Committee shall seal and hold in safe custody for a period of ten days the ballot boxes containing both the nomination and the election ballots. In case of an appeal signed by not less than two-thirds of the voters of any division, within this ten-day period, questioning the validity of the count, the Division Election Committee shall deliver the sealed ballot boxes to the Plant Conference Committee, hereinafter constituted. This committee shall count and certify by signed lists in the same manner as provided in clause 5, and there shall be no further appeal from their decision. If in the judgment of the Plant Conference Committee the irregularities are such as to demand a new election, they are authorized to arrange for such election.

7. As a certain interval of time is required to enable a man to become acquainted with the conditions surrounding the work in any department, so that he can intelligently represent his fellow-workmen, all persons elected as division representatives shall have been in the employment of the company for at least one year in the aggregate; provided, however, that the division representative of each

plant, if they so elect, may provide for a longer term of service in order to qualify a man for the position of representative.

8. In case a petition is signed by not less than two-thirds of the employees of any division, stating that any elected representative of that division has ceased to be satisfactory to them, a re-election for the position occupied by such representative shall be held similar to that which would be held in the case of a vacancy.

9. When any elected representative ceases to be an employee of the company, his position as representative shall become vacant, and his successor shall be elected as provided in Part I, clause 3.

II. ADMINISTRATION

1. Within a week from the date on which the Division Election Committee announce the names of the elected division representatives, all of these representatives shall meet and elect from among their number a Plant Conference Committee, consisting of one representative for each 3,000 employees at the plant; with the proviso that if, at any plant, the number of employees in excess of 3,000 or any multiple thereof is 1,500, there shall be a representative elected for this fraction; and if the fraction is less than 1,500, it shall not be counted; with the further proviso that no two members of the Plant Conference Committee shall be selected from the same department of the plant.

2. Any employee having any grievance or any matter on which he desires to have a decision shall first present the subject to his immediate foreman or superintendent, in person or through his division representatives. If unable to secure a satisfactory adjustment, the aggrieved person, through his division representatives, shall present the matter in writing to the Plant Conference Committee mentioned in clause 1. If, in the judgment of this committee, the grievance is a just one, they shall present the matter in writing to the general superintendent of the works, who shall then confer with the Plant Conference Committee, with a view to reaching a satisfactory settlement. The general superintendent shall have the privilege, if he so desires, of calling into this conference all of the division representatives.

3. If the general superintendent, or his representative, and a majority of the Plant Conference Committee (or a majority of the division representatives in case they are called into the conference), are unable to agree upon any question at issue, the matter shall be referred to a committee consisting of the general superintendents of all the plants of the company and all the members of the Plant Conference Committees of all the plants of the company. This combina-

tion of Plant Conference Committees together with the general superintendents shall be known as the General Committee. On all propositions submitted to a vote by the General Committee, the general superintendents shall jointly cast one vote for the company and the representatives of the employees shall jointly cast one vote for the employees. The president and other executive officers of the company shall have the privilege of appearing before the General Committee. If this committee is unable to reach an agreement, the matter shall be referred to arbitration.

4. One person shall be elected as arbitrator if the parties can agree upon his election; otherwise there shall be a board of three arbitrators, one member to be selected by the president of the company or his representative, one member to be selected by the employee members of the General Committee; these two members, if unable to agree, to select a third arbitrator. The decision of the arbitrator or arbitrators in any matter submitted to him or them, shall be final and binding upon both the company and the employees.

III. RULES GOVERNING THE EMPLOYMENT AND DISCHARGE OF WORKMEN

1. The right of the company to hire and suspend or discharge men shall not be limited, except as expressly provided herein.

2. Any employee, guilty of any of the following offenses, shall be subject to immediate discharge without notice: (a) disloyalty to the United States government by act or utterance; (b) any offense against the criminal law of the state; (c) assault upon, or attempt to injure, another person; (d) wanton destruction of property; (e) refusal to obey a reasonable order of his superior officer; (f) intoxication while on duty.

3. For offenses of a less serious character, such as carelessness, failure to report for duty regularly and at the proper time, inefficiency, etc., it shall be the duty of the officers to secure efficiency by giving the offender at least one caution, which, if not heeded, may be followed by dismissal without further notice.

4. Any employee discharged for cause, may demand that such cause be clearly stated to him, and shall have the right of appeal to the general superintendent, either in person or through his elected representative.

IV. GENERAL

1. No employee shall be compelled to purchase any articles, or service, from the company nor to subscribe to any fund, except such beneficial associations as are already established or may hereafter,

with the consent of the employees, be created. This shall not affect the duty of employees to account for tools or other supplies owned by the company and intrusted to their care.

2. Nothing in the foregoing shall prohibit the company from giving employees an opportunity to subscribe for the stock of the company, Liberty Loans, Thrift Stamps, etc., providing all such subscriptions are entirely voluntary on the part of the employees.

3. Nothing herein shall affect the right of the company to suspend work in any department because of lack of orders or for any other legitimate business reason. This may be done without notice, but it shall be the duty of the officers to give as much advance notice as practicable.

4. If any elected representative is appointed as a salaried foreman or superintendent, his position as representative shall thereby become vacant, and his successor shall be elected as provided in Part I, clause 3.

Once every three months, at times and places mutually agreed upon by the president of the company and the Conference Committee of the plants, there shall be a combined meeting of all elected representatives with the officials of the company for the purpose of discussing all matters of general interest to both parties.

328. The Colorado Plan²⁰

1. There shall be on the part of the company and its employees a strict observance of the federal and state labor laws and of the company's rules and regulations supplementing the same.

2. The wage rate shall be kept on file by the superintendents of the several departments and shall be open to inspection by any representative or other employee upon request.

3. There shall be no discrimination by the company or by any of its employees on account of membership or non-membership on any society, fraternity, or union.

4. The right to hire and discharge, the management of the works, and the direction of the working force, shall be vested exclusively in the company, and except as expressly restricted this right shall not be abridged by anything contained herein.

5. There shall be posted in each subdivision a list of offenses for commission of which by an employee dismissal may result without notice. For other offenses employees shall not be discharged without first having been notified that a repetition of the offense will be a

²⁰Adapted from Part III, "The Prevention and Adjustment of Industrial Disputes" of the *Plan of Representation of Employees of the Colorado Fuel and Iron Company in the Company's Minnequa Steel Works*, 1915.

cause for dismissal. Nothing herein shall abridge the right of the company to relieve employees from duty because of lack of work. In relief from duty through lack of work, men with families shall, all things being equal, be given the preference.

6. Employees shall have the right to hold meetings at appropriate places on company property or elsewhere as they may desire outside of working hours or on idle days.

7. Employees shall not be obliged to trade at the company stores, but shall be at perfect liberty to purchase goods wherever they may choose.

8. Subject to the provisions hereinafter mentioned, every employee of the company shall have the right of ultimate appeal to the president of the company concerning any condition or treatment to which he may be subjected and which he may deem unfair.

9. It shall be the duty of the president's industrial representative to respond promptly to any request from employees representatives for his presence in any subdivision, and to visit all of them frequently to confer with the employees or their representatives and the superintendents respecting working and living conditions, the observance of federal and state laws, the carrying out of company regulations, and to report the result of such conference to the president.

10. Before reporting any grievance to the president, to the industrial representative, or to other of the high officers of the company, employees shall first seek to have differences on the conditions complained about adjusted by conference, in person or through their representatives, with the foreman or superintendent.

11. Employees believing themselves subjected to unfair conditions and having failed to secure adjustment through the superintendent, may present their grievances to the industrial representative, either in person or through their regularly elected representatives, and it shall be the duty of the industrial representative to look into the same immediately and seek to adjust the grievance.

12. Should the industrial representative fail with respect to any grievance, suspension, or dismissal, the aggrieved employee, either himself or through his representative, may appeal for the consideration and adjustment of his grievance to the manager, general manager, or the president of the company, in consecutive order. The right of appeal must be exercised within a period of two weeks after the same has been referred to the industrial representative.

13. Where the industrial representative or one of the higher officials fails to adjust a difference, upon request to the president by the employees' representatives of the division concerned, or upon the initiative of the president himself, the difference shall be referred

to the joint committee on industrial co-operation and conciliation, and the decision of the majority of such Joint Committee shall be binding upon all parties.²¹

14. Whenever the Joint Committee on Industrial Co-operation and Conciliation is called upon to act, except by the consent of all present, it shall not proceed with any important part of its duties unless both sides are equally represented. Where agreeable, equal representation may be effected by the withdrawal of one or more members from the side having the majority.

15. Should the Joint Committee fail to reach a majority decision as to any difference, if the majority of its members so agree the Joint Committee may select as umpire a third person who shall sit in conference with the committee and whose decision shall be binding upon all parties.

16. In the event of the Joint Committee failing to adjust a difference by a majority decision or by the selection of an umpire, if the parties so agree the matter shall within ten days be referred to arbitration. Otherwise it shall be made the subject of an investigation by the state of Colorado Industrial Commission, in accordance with the provision of the statute regulating the powers of the commission. Where a difference is referred to arbitration, one party shall be selected as arbiter if the parties can agree upon his selection. Otherwise there shall be a board of three arbitrators, one to be selected by the employees' representatives on the Joint Committee, one by the company's representatives on this committee, and a third by the two arbiters thus selected. By consent of both parties the Industrial Commission of the state of Colorado may be asked to appoint all the arbiters or to arbitrate the difference itself. The decision of the sole arbiter, or of the majority of the Board of Arbitration, or of the Industrial Commission when acting as arbiters, as the case may be, shall be final and shall be binding upon the parties.

17. To protect against the possibility of unjust treatment because of any action taken or to be taken by them on behalf of one or more of the company's employees, any employees' representative believing himself to be discriminated against for such a cause shall have the same right of appeal to the officers of the company or to the Joint Committee as is accorded every other employee of the company. Having exercised the right in the consecutive order indicated without obtaining satisfaction, for thirty days thereafter he shall have the further right of appeal to the Industrial Commission of the state of

²¹This committee is composed of twelve members, six of the number designated by the employees' representatives on the Joint Conference and the other six by the president of the company or his representative.

Colorado, which body shall determine whether or not discrimination has been shown, and as respects any representative demand by the commission to have been unfairly dealt with, the company shall make such reparation as the Industrial Commission shall deem just.

329. The Future of Industrial Relations²²

BY HENRY P. KENDALL

The war has now ceased. The labor problem stands in higher relief as the great problem facing the American people today. The question before organized business is, Will we be far-sighted in formulating a declaration of right principles upon which employers can meet employees and the public on a new forum where sound industrial relations can be secured and maintained, not by a measure of economic strength as in the past, but by the rule of reason?

There are four ways in which the problem will be considered. First, a set of federal industrial courts after the plan of the Australian system through which compulsory arbitration is virtually in force, with a huge governmental machinery to carry it out. There is the second plan of wage adjustment boards set up by the industries themselves and their employees with equal representation on each side. These boards should in advance determine and agree on standards of wages, hours, and conditions of employment, in which both parties interested should have an equal voice. The third method of approaching the problem of industrial relations is to hold that since labor and management are in an irreconcilable conflict, proper procedure is merely to keep up the fight until one side is beaten or things get so bad that the country at large will take a hand. The fourth plan is simply to let things drift to an approximation of a status *quo ante*, which very few believe is either sound or wise.

The second plan, it seems to me, is the only possible safeguard for management and is sound in business principles and in ethics. Far-seeing business men today would do well to speak in no misunderstood fashion and declare the principles for which they stand. They must be ready to meet the situation squarely with a full knowledge of economic law and the laws of society. There are certain principles on which wage adjustment boards by industries are founded. An outstanding part of the plan is to grant representation within shops, on the theory that the employees are entitled to a voice in determining the conditions under which they work. Other principles which should govern and on which any wise action can be taken are the following:

²²Adapted from an address entitled "Post-War Standards for Industrial Relations," delivered before a group of business men and manufacturers, December 5, 1918.

1. The recognition that industrial enterprises are the source of livelihood to workers as well as to employers and should be conducted with a view of the greatest opportunity for all concerned.

2. That much of the industrial unrest is caused by irregularity of employment which can be lessened greatly if industries and communities will face the problem and feel it their responsibility, and co-operate to standardize methods, customs, and styles, to give regularity of employment.

3. The right of workers to organize in joint action not inimical to the general welfare cannot be denied. Such recognition, however, must be joined with responsibility of both parties to the faithful observance of collective agreements and co-operation with the management to promote the efficiency of the establishment as a whole.

4. Impartial agencies such as outlined above must be set up to interpret agreements and to apply them in particular cases and to make prompt and authoritative settlements.

5. The right of workers, including common laborers, to a living wage is declared.

6. When the volume of business declines, wages should be the last item to be cut down. It has been demonstrated that high wages and national prosperity are corollaries.

7. Wherever there is a standardized wage there should be a definite standardized measure of performance and all workers have a right to compensation in proportion to their individual accomplishments, ability, and service.

In plants where there are a sufficient number of the employed, where the personal relations of the proprietor are more or less lost, the interests of the employees should be delegated to some one person as a labor manager or director of personnel who should have charge of this function of business. It is my conviction that manufacturers and merchants could do no more useful work than furthering throughout the business interests of the country the idea of the importance of the employment manager by which industries and corporations shall have a department which is sensitive and responsive to the grievances and aspirations of the employees.

In panic times the country realizes the inflexibility of the present methods of distributing labor. The Labor Department has established a system of public employment offices. I believe that in theory this is just as sound for the flexibility of labor as the Federal Reserve Board is for the flexibility of currency. These, however, should not be contaminated with a political influence. The practice should be extended by decentralized control through local agencies made up of

representatives of employers and employees. The public should control such agencies and maintain a high standard of efficiency.

It is the responsibility of wise business men to discover the currents of underlying business conditions and help to direct them into proper channels. This cannot be done by ignoring the great problem of industrial relations or simply fighting organized labor. The sound solution of this great problem will determine the future political, economic, and social stability as well as the industrial prosperity of this great country. Shall the only big organization representative of business in the broadest sense throughout the country remain silent on the subject? Is there any more important business problem? Shall it lead the way and declare a set of principles about which business may rally and which shall serve as a guide to governmental action so far as it is required, in addition to what the business men of the country in conjunction with the workers accomplish by their own means?

F. STANDARDS

330. Standards for Children Entering Employment²⁸

I. AGE MINIMUM

An age minimum of sixteen for employment in any occupation except that children between fourteen and sixteen may be employed in agriculture and domestic service during vacation periods.

An age minimum of eighteen for employment in and about mines and quarries.

An age minimum of twenty-one for night messenger service.

An age minimum of twenty-one for girls employed as messengers for telegraph and messenger companies.

Prohibition of the employment of minors in dangerous or hazardous occupations or at any work which will retard their proper physical development.

II. EDUCATIONAL MINIMUM

All children shall be required to attend school for at least nine months each year, either full time or part time, between the ages of seven and eighteen.

Children between sixteen and eighteen years of age who have completed the eighth grade and are legally and regularly employed shall be required to attend day continuation schools eight hours a week.

²⁸This list of tentative minimum standards was adopted by the Conference on Child Welfare, held under the auspices of the Children's Bureau at Washington, May 5-8, 1919.

Children between sixteen and eighteen who have not completed the eighth grade and are legally and regularly employed shall attend full-time school.

Vacation schools placing special emphasis on healthful play and leisure time activities shall be provided for all children.

III. PHYSICAL MINIMUM

A child shall not be allowed to go to work until he has had a physical examination by a public health physician or school physician and has been found to be of normal development for a child of his age and physically fit for the work at which he is to be employed.

There shall be a periodical medical examination of all working children who are under eighteen years of age.

IV. HOURS OF EMPLOYMENT

No minor shall be employed more than eight hours a day. The maximum working day for children between sixteen and eighteen years of age shall be shorter than the legal working-day for adults.

The hours spent at continuation school by children under eighteen shall be counted as a part of the working-day.

Night work for minors shall be prohibited between 6:00 p.m. and 7:00 a.m.

V. MINIMUM WAGE

Minors at work shall be paid at a rate of wages which for full-time work shall yield not less than the minimum essential for the "necessary cost of proper living."

VI. PLACEMENT AND EMPLOYMENT SUPERVISION

There shall be a central agency which shall deal with all juvenile employment problems. Adequate provision shall be made for advising children when they leave school of the employment opportunities open to them; for assisting them in finding suitable work and providing for them such supervision as may be needed during the first years of their employment. All agencies working toward these ends should be co-ordinated through the central agency referred to.

VII. ADMINISTRATION

Provision shall be made for issuing employment certificates to all children entering employment who are eighteen years of age.

An employment certificate shall not be issued to the child until the issuing officer has received, approved, and filed the following:

1. Reliable documentary proof of the child's age.

2. Satisfactory evidence that the child has completed the eighth grade.

3. A certificate of physical fitness signed by a public health physician. This certificate shall state that the minor has been thoroughly examined by the physician and that he is physically qualified for the employment contemplated.

4. Promise of employment.

The certificate shall be issued to the employer and shall be returned by the employer to the issuing officer when the child leaves his employment.

The school last attended, the compulsory education department, and the continuation schools shall be kept informed by the issuing officers of certificates issued or refused and of unemployed children for whom certificates have been issued.

Minors over eighteen years of age shall be required to present evidence of age before being permitted to work in occupations in which their employment is prohibited.

Record forms shall be standardized and the issuing of employment certificates shall be under state supervision.

Reports shall be made to the factory inspection department of certificates issued and refused.

Full-time attendance officers adequately proportioned to the school population shall be provided in cities and counties to enforce the school attendance law.

The enforcement of school attendance laws by city or county school authorities shall be under school supervision.

Inspection for the enforcement of all child-labor laws, including those regulating the employment of children in mines or quarries, shall be under the same department. The number of inspectors shall be sufficient to insure the regular observance of the laws.

Provision should be made for staff of physicians adequate to examine periodically all employed children under eighteen years of age.

331. Standards for Women in Industry²⁴

I. HOURS OF LABOR

1. No woman shall be employed or permitted to work more than eight hours in any one day or forty-eight hours in any one week. The time when the work of women employees shall begin and end and the time allowed for meals shall be posted in a conspicuous place in each workroom and a record shall be kept of the overtime of each

²⁴Issued by the Women in Industry Service of the United States Department of Labor, 1918. Indorsed by the United States War Labor Policies Board.

woman worker.

2. Observance of the Saturday half-holiday should be the custom.

3. Every woman worker should have one day of rest in seven.

4. At least three-quarters of an hour shall be allowed for a meal.

5. A rest period of ten minutes should be allowed in the middle of each working period without thereby increasing the length of the working day.

6. No woman shall be employed between the hours of 10:00 P. M. and 6 A. M.

II. WAGES

1. Women doing the same work as men shall receive the same wages with such proportionate increases as the men are receiving in the same industry. Slight changes made in the process or in the arrangement of work should not be regarded as justifying a lower wage for a woman than for a man unless statistics of production show that the output for the job in question is less when women are employed than when men are employed. If a difference in output is demonstrated, the difference in the wage rate should be based upon the difference in production for the job as a whole and not determined arbitrarily.

2. Wages should be established on the basis of occupation and not on the basis of sex. The minimum wage rate should cover the cost of living for dependents and not merely for the individual.

III. WORKING CONDITIONS

1. State labor laws and industrial codes should be consulted with reference to provisions for comfort and sanitation. Washing facilities with hot and cold water, soap and individual towels should be provided in sufficient numbers and in accessible locations to make washing before meals and at the close of the workday convenient. Toilets should be separate for men and women, clean and accessible. Their numbers should have a standard rate to the number of workers employed. Dressing-rooms should be provided adjacent to washing facilities, making possible changes of clothing outside the work-rooms. Rest rooms should be provided. Lighting should be arranged so that direct rays do not shine on the workers' eyes. Ventilation should be adequate and heat sufficient. Drinking water should be cool and accessible, with individual drinking cups or bubble fountain provided. Provision should be made for the workers to secure a hot and nourishing meal eaten outside the workroom, and if no lunch rooms are accessible near the plant, a lunch room should be maintained in the establishment.

2. Continuous standing and continuous sitting are both injurious. A seat should be provided for every woman employed and its use encouraged. It is possible and desirable to adjust the height of the chairs in relation to the height of the machines or work tables, so that the worker may with equal convenience and efficiency stand or sit at her work. The seats should have backs. If a chair is high, a foot rest should be provided.

3. Risks from machinery, danger from fire and exposure to dust, fumes or other occupational hazards should be scrupulously guarded against by observance of standards in state and federal codes. First aid equipment should be provided. Fire drills and other forms of education of the workers in the observance of safety regulations should be instituted.

4. In determining what occupations are suitable and safe for women attention should be centered especially on the following conditions which would render the employment of women undesirable if changes are not made: (a) constant standing or other positions causing a physical strain; (b) operation of mechanical devices requiring undue strength; (c) repeated lifting of weights of twenty-five pounds or over, or other abnormally fatiguing motions; (d) exposure to excessive heat, that is, over 80°, or excessive cold, that is, under 50°; (e) exposure to dust, fumes, or other occupational poisons without adequate safeguards against disease.

5. Women must not be employed in occupations involving use of poisons which are proved to be more injurious to women than to men, such as certain processes in the lead industries.

6. Uniforms with caps and comfortable shoes are desirable for health and safety in occupations for which machines are used or in which the processes are dusty.

IV. HOME WORK

No work shall be given out to be done in rooms used for living or sleeping purposes or in rooms directly connected with living or sleeping-rooms in any dwelling or tenement.

V. EMPLOYMENT MANAGEMENT

1. In establishing satisfactory relations between a company and its employees a personnel department is important, charged with responsibility for selection, assignment, transfer, or withdrawal of workers and the establishment of proper working conditions.

2. Where women are employed, a competent woman should be appointed as employment executive with responsibility for conditions

affecting women. Women should also be appointed in supervisory positions in the departments employing women.

3. The selection of workers best adapted to the requirements through physical equipment and through experience and other qualifications is as important as the determination of the conditions of the work to be done.

VI. CO-OPERATION OF WORKERS IN ENFORCEMENT OF STANDARDS

The responsibility should not rest upon the management alone to determine wisely and efficiently the conditions which should be established. The genuine co-operation essential to production can be secured only if definite channels of communication between employers and groups of their workers are established. The need of creating methods of joint negotiation between employers and groups of employees is especially great in the light of the critical points of controversy which may arise on a time like the present. Existing channels should be preserved and new ones opened if required, to provide easier access for discussion between employer and employee.

332. International Labor Standards²⁵

Under the wage system the capitalists seek to increase their profit in exploiting the workers by methods which, unless the exploitation is limited by international action of the workers, would lead to the physical, moral, and intellectual decay of the workers.

The emancipation of labor can be realized only by the abolition of the capitalist system itself. Meanwhile, the resistance of the organized workers can lessen the evil; thus the worker's health, his family life, and the possibility of bettering his education can be protected in such fashion that he may fulfil his duties as a citizen in the modern democracy. The capitalist form of production produces a competition in the various countries which puts the backward countries in a state of inferiority to the more advanced.

The need of a normal basis for international labor legislation has become doubly urgent as a result of the terrific upset and enormous ravages which the popular forces have suffered because of the war. We regard the present remedy of this situation to be the constitution of a league of nations applying an international labor legislation.

²⁵Adapted by the International Labor Conference held at Berne, 1919. From the *Survey*, XLI, 857. It need not be said that this charter was not adopted by the Peace Conference, and that the provisions of the treaty relating to labor amount to little more than an organization of an international labor office and provisions for mechanism for dealing with labor problems in the future.

The International Trade-Union Conference met at Berne and asked the league of nations to institute and apply an international system fixing the conditions of labor.

The present conference supports the decisions of the Trades-Union Conference of Leeds (1917) and Berne (1918), and asks that their essential provisions, already applied in the several countries, be applied internationally and be inscribed in the treaty of peace as an international charter of labor, as follows:

1. The conference considers primary instruction obligatory in all countries; pre-apprenticeship and general industrial training should be established everywhere. Higher schooling should be free and accessible to all, special aptitudes and aspirations not being blocked by the material conditions of life in which the children may be placed.

Children below fifteen shall not be employed in industry.

2. Children from fifteen to eighteen shall not be employed more than six hours per day, with one and one-half hours' rest after four hours of work. For two hours per day both sexes shall take technical continuation courses to be established for them between six in the morning and eight at night.

The employment of children shall be prohibited (a) between eight at night and six in the morning; (b) Sundays and holidays; (c) in unhealthy industries; (d) in underground mines.

3. Women workers shall have a Saturday half-holiday and shall work only four hours that day; exceptions which are necessary in certain industries being compensated for by a half-holiday some other day in the week.

Women workers shall not work at night. Employers shall be forbidden to furnish home work after the regular hours of labor. Women shall not be employed in the dangerous industries where it is impossible to create healthy conditions, as, for instance, in mines where the handling of harmful materials is injurious to the health of weak constitutions.

The employment of women for four weeks before and six weeks after maternity shall be forbidden.

A system of maternity insurance shall be established in all countries and benefits paid in case of illness. Women's work shall be free and based on the principle of equal pay for equal work.

4. The hours of labor shall not exceed eight per day and forty-four per week. Night work, after eight at night and before six in the morning, shall be forbidden except where the technical nature of the work makes it inevitable.

Where night work is necessary the pay shall be higher.

5. The Saturday half-holiday shall be introduced in all countries. The weekly repose shall be of at least thirty-six hours. When the nature of the work requires Sunday work, the weekly repose shall be arranged during the week. In industries of continuous fire, the work shall be arranged so as to give the workers holidays on alternate Sundays.

6. To protect health, and as a guaranty against accidents, the hours of labor shall be reduced at least eight hours in very dangerous industries. The use of harmful matters is forbidden wherever they can be replaced. A list of prohibited industrial poisons shall be made; the use of white phosphorous and white lead in decoration shall be forbidden. A system of automatic coupling shall be applied internationally on the railroads.

All laws and regulations concerning industrial labor shall in principle be applied to home work; the same is true for social insurance.

7. Work which may poison or injure health shall be excluded from homes.

8. Food industries, including the manufacture of boxes and sacks to contain food, shall be excluded from homes.

9. Infectious diseases must be reported in home industries and work forbidden in houses where these diseases are found. Medical inspection shall be established.

Lists of workers employed in home industries shall be drawn up and they shall have salary books. Committees of representatives of employers and workers shall be formed wherever home industries prevail, and they shall have legal power to fix wages. Such wage scales shall be posted in the work places.

Workers shall have the right to organize in all countries. Laws and decrees submitting certain classes of workers to special conditions or depriving them of the right of organization shall be abrogated. Emigrant workers shall have the same rights as native workers, including the right to join unions and to strike. Punishments shall be provided for those who oppose the rights of organization and association.

Foreign workers have the right to the wages and conditions of labor which have been agreed upon between the unions and employers in all branches of industry. Lacking such agreements they have the right to the wages current in the region.

10. Emigration shall in general be free. Exceptions shall be made in the following cases: (a) A state may temporarily limit immigration during a period of economic depression in order to protect the native as well as the foreign workers. (b) Any state may control immigration in the interest of public hygiene and may tem-

porarily forbid it. (c) States may demand of immigrants that they be able to read and write in their own tongue—this in order to maintain a minimum of popular education and to render possible the application of labor laws in industries employing immigrants.

The contracting states agree to introduce without delay laws forbidding engaging workers by contract to work in other countries and putting an end to the abuse of private employment agencies. Such contracts shall be forbidden.

The contracting states agree to prepare statistics of the labor market based upon local reports, mutually exchanging information as often as possible through a central international office. These statistics shall be communicated to the trade-unions of each country. No worker shall be expelled from any country for trade-union activity; he shall have the right of appealing to the courts against expulsion.

If wages be insufficient to assure a normal life, and if it be impossible for employers and workers to agree, the government shall institute mixed commissions to establish minimum wages.

11. In order to combat unemployment, the trade-union centers of the various countries shall maintain relations and exchange information relative to the demand and supply of labor. A system of insurance against unemployment shall be established in all countries.

12. All workers shall be insured by the state against industrial accidents. The benefits paid the insured or their dependents shall be fixed according to the laws of the worker's country of origin. Old age and invalidity insurance and insurance for widows and orphans shall be established with equal benefits for natives and foreigners.

A foreign worker may, on departure, if he has been the victim of an industrial accident, receive a lump sum, if such an agreement has been concluded between the country where he has been working and his country of origin.

13. A special international code shall be created for the protection of seamen, to be applied in collaboration with the seamen's unions.

14. The application of these measures shall in each country be confided to labor inspectors. These inspectors shall be chosen among technical, sanitary, and economic experts, and aided by the workers of both sexes.

The trade-unions shall watch over the publication of the labor laws. Employers employing more than four workers speaking foreign tongues shall post the labor regulations and other important notices in their respective languages, and shall at their own expense teach the language of the country to their employees.

15. To apply the international labor legislation the contracting states shall create a permanent commission constituting half of the delegates of the states which are members of the league of nations and half of delegates of the international federation of labor unions.

The permanent commission shall convoke annually the delegates of the contracting states to perfect the international labor legislation. This conference should be composed one-half of representatives of the organized workers of each country ; it shall have power to make resolutions having the force of international law.

The Permanent Commission shall collaborate with the International Labor Office at Bale and with the International Union of Trade-Unions.

XIV

SOCIAL REFORM AND LEGAL INSTITUTIONS

From time out of mind the value and permanence of "fundamental" institutions have been questioned. The escape in America from a discussion of problems so basic has been largely due to the newness of our society. The open frontier, the wide distribution of industrial opportunity, the lack of formal class lines, and a spirit of self-reliance have centered our attention upon the more immediate problems of applying a machine-technique to a new continent and of collecting the golden returns. So closely have we been absorbed in this that we have regarded our institutions as a part of the immutable universe itself, as unalterable as the paths of the stars.

But with our consciousness of maturity we are beginning to realize that in the immediate future we must newly evaluate our institutions. Three lines of development are responsible for this change in attitude. First, we are victims of intellectual curiosity. The emphasis placed upon the general ideas of "evolution" and "organism" in our intellectual system has led investigators to explore the institutional realm, and they have brought back word to us that our institutions are but social conventions, and that, though they change slowly, they nevertheless change. Accordingly they are losing the attribute of absoluteness with which we have been accustomed to endow them. Secondly, there is a growing feeling that wealth is inequitably distributed. This attitude was apparent in our discussion of the tariff, the railroads, the trusts, the immigration problem. It manifests itself clearly in discussions of the problems of labor and in the literature of socialism. Even so late as a decade ago the conflict between those who proposed radical changes in our present social arrangements and the upholders of the present order turned upon the issue of the source of value. Today questions of market-process are no longer strategic points of conflict between the opposing systems. The clash now is over institutions. Accordingly we find questions of the social and industrial reform engaging the attention, not only of the economist, but of the student of jurisprudence, the political scientist, the sociologist, and the philosopher as well. Thirdly, the peculiar nature of the industrial system is forcing such questions to the front. Unlike other systems, Modern Industrialism makes use of a vast co-operative productive system. In this there are employed vast aggregates of accumulated wealth. A consciousness of the importance of this large volume of "socialized capital" is leading to the formation of a "gospel of wealth" not unlike the mediaeval "doctrine of stewardship." The disposition to justify or condemn ownership or use of productive goods by "social results" is becoming stronger. Together these three lines of development are increasing our interest in problems of an institutional nature.

Four closely related problems are treated below as typical of the whole group. The first, and in a sense the one which comprehends all the others, is the legal system. It has been pronounced alike "a subtle device of capitalism for enslaving the laborer" and "the supreme palladium of our liberties." Its defenders insist that "law is the conservative factor in social development" and declare its stability a necessary condition to industrial and social advance. Its opponents insist that it is still bound by the natural-rights philosophy of the eighteenth century, that it is living in a world of fictions, and that it knows nothing of the reality of Modern Industrialism. A second institution, which is little else than an aspect of this larger first, is the system of jurisprudence as interpreted by the courts. It is easy to discern a fundamental antithesis between the theory of social or group solidarity underlying much recent legislation and

the individualistic philosophy which finds expression in court decisions. It is easy to criticise the legislation as overlooking "natural rights" which the "courts were established to maintain." It is equally easy to condemn the courts for their inability to appreciate the theory of group welfare underlying such legislative enactments. It is a far more difficult problem to suggest a practical way in which the antithesis can be solved.

A third institution under attack is our system of private property. Most of those who condemn the institution are moved by the inequalities in wealth which they charge to it. Their attitude is alike shortsighted and individualistic. The institution is commonly defended upon the ground that property-owners are entitled to "what they produce," the assumption being that they "produce" their property. It need not be said that this defense is as weak as the attack. There is, however, a growing disposition to judge the institution by its less immediate "social consequences." Thus, it is attacked because of its creation and perpetuation of artificial inequalities in income, because of its influence in stratifying society on pecuniary lines, and because of the dominant social position which it gives to the owners of large aggregates of material wealth. Its defenders, in like manner, stress the incentive which it furnishes to individual initiative, the function which it performs in social organization by placing productive property under efficient management, and its contribution to material development in furthering the accumulation of capital. Perchance a system may be devised for combining the advantages of economic democracy with those of an advancing material culture. If so, by all means let us adopt it. But if the antithesis is irreconcilable, we must choose between two things, both of which offer advantages and disadvantages. Perchance it may be best to sacrifice material advancement; but it is to be feared that the preent generation cannot easily be convinced of that. Perhaps we may be fortunate enough to retain the institution, but can succeed in modifying it in such a way as to establish a necessary connection between the privileges and the responsibilities of ownership. At best the problem contains many contradictory values, and turns upon the larger question of the type of society that is desirable.

A fourth and closely related institution is that of individual liberty, embracing as it does the legal convention of freedom of contract. A necessary complement of private property in a flexible industrial system, it is the very epitome of the older institutional complex. Its modification is threatened by the rise of the newer group spirit, through such legislative initiatives as regulation of monopoly, prescription of hours of labor, legal restraints upon hiring and discharge, etc. How sweeping its modification is to be only the future can tell.

Our attention to our institutional framework of society has just begun. The range of inquiry is as broad as human life itself; the other problems discussed in this volume only begin to show its comprehensiveness. By conscious change many of our institutions are to be profoundly modified. If the newer life finds the institutional molds too rigid, the change may be rapid and revolutionary. But most important of all are the changes in these institutions which are gradually being effected by a process of growth which we but dimly see and the changes which these institutions in turn are inducing in the complex of our developing scheme of life and values.

A. THE LEGAL SYSTEM

333. The Economic Basis of Law¹

BY ACHILLE LORIA

Changes in the prevailing economic conditions necessarily involve corresponding alterations in law. The history of law furnishes us with clear and definite demonstration of the fact. During the primitive period when law was worked out upon a family and not upon a property basis, mother-right prevailed universally. Under more modern conditions we are struck with amazement at the similarity in legal systems prevailing among the most diverse peoples. The ancient law of the Romans and Germans alike shows us the same classification of persons; among both the law maintained the inviolability of private property, determined the boundaries of patrimonial fields, proclaimed the personal nature of an obligation, and fixed the rigorous bonds that shackled the liberty of the debtor.

That so striking an analogy should exist in the legal system of two peoples so profoundly different and so widely separated is highly significant: on the one hand, because it reverses the theory that law is an emanation of national consciousness; and upon the other, because it shows that the law necessarily depends upon existing economic conditions. The Romans and the primitive Germans were different in race and manners and lived under different climatic conditions. Between the two peoples there was nothing in common beyond the identity of their economic systems; or, to put it more definitely, there was nothing in common except identical territorial conditions, which irresistibly impelled them to adopt an identical economic constitution. The analogy in legal systems must necessarily have resulted from the one element common to them both, their economic system.

The Roman economy and the German economy proceeded together for a certain time. But after the collective economy gave way to the system of capitalistic property, their ways lay apart; for Germany's free land, being of a low grade of fertility, could be taken from the laborer without serious violence, while in Southern Europe, with its fertile land, blood and iron alone could prevent the laborers from establishing themselves on the free land. This led in Southern Europe to an admirably perfected capitalistic system upon which a corresponding legal structure was raised. The resulting system of legal relations and doctrines remain to our day a superb monument to Latin genius.

¹Adapted from *The Economic Foundations of Society* (1889), pp. 80-86. Translated by Lindley M. Keasbey.

The slave economy was never rigorously established in Teutonic countries; the suppression of free land there assumed the milder form of serfdom. Thus there was produced a legal system differing from that of Rome in three respects: it instituted patriarchal relations between property and labor; it protected the serf from arbitrary acts of violence by the proprietor; and it placed respect for the family and a sentiment of solidarity above the mere satisfaction of brutal egoism. With the disintegration of Roman society, the classic law fell into abeyance. Southern Europe was forced to introduce the serf system, and it then became expedient to substitute the Germanic code for the classic law of Rome. This substitution was not a victory of Teutonic over Roman law; it was simply the natural reproduction of a legal system to meet the reappearance of the very economic conditions that had originally given it life. We thus have additional proof of the law's exclusive dependence upon the economic structure of society.

In a somewhat analogous manner the later institution in Germany of economic relations similar to those formerly prevailing in Rome introduced the Roman law into that country. Here the growing wage economy engendered a new set of relations between property and labor, and these had to give rise to institutions heretofore unknown. The new system offered a profound analogy to that of the Roman slave economy. Thus, though the law regulating the wage contract had to be an original creation of the new economic system, the law regulating the relations among proprietors could practically be reproduced in its classic form. Now it is exactly these relations that constitute the essential object of the law. The Roman law, accordingly, emerged from the tomb where it had so long reposed into the expansion of a new life. The movement toward this awakening commenced in Italy where the wage economy first began to develop. Its passing from Italy into Germany was but the necessary correlation of the economic revolution that spread these same conditions throughout Northern Europe.

Thus legal history shows us that instead of being the product of abstract reason, or the result of national consciousness, or a racial characteristic, the law is simply the necessary outcome of economic conditions.

334. Social Rights and the Legal System²

BY ROSCOE POUND

A generation ago it would have been hard to find anyone to question that upon the whole the American law was quite what it should

²Adapted from "Social Problems and the Courts," *American Journal of Sociology*, XVIII, 331-41. Copyright by the University of Chicago, 1912.

be. But first the economists and sociologists and students of government, and then the bar itself, have been thinking upon this matter freely and vigorously until criticism has become stable. The need for agitation has passed. Now for a season we need careful diagnosis and thoroughgoing study of the lines along which change is to proceed.

Legal history shows that from time to time legal systems have to be remade, and that this new birth of a body of law takes place through the infusion into the legal system of something from without. A purely professional development of law, which is necessary in the long run, has certain disadvantages, and the undue rigidity to which it gives rise must be set off from time to time by receiving into the legal system ideas developed outside of legal thought. Such a process has taken place in the history of our own law. In the sixteenth and seventeenth centuries the common law, through purely professional development in the King's Courts, had become so systematic and logical and rigid that it took no account of the moral aspects of causes to which it was to be applied. With equal impartiality its rules fell upon the just and the unjust. The rise of the Court of Chancery and the development of equity brought about an infusion of morals into the legal system—an infusion of the ethical notions of chancellors who were clergymen, not lawyers—and made over the whole law. Again, in the eighteenth century, the law had become so fixed and systematized by professional development as to be quite out of accord with a commercial age. As the sixteenth-century judge refused to hear of a purely moral question, asking simply what was the common law, so the eighteenth-century judge at first refused to hear of mercantile custom and commercial usage, and insisted upon the strict rules of the traditional law. But before the century was out, by the absorption of the law merchant, a great body of non-professional ideas, worked out by the experience of merchants, had been infused into the legal system, and had created or made over whole departments of the law.

Today a like process is going on. The sixteenth-century judge who rendered judgment upon a bond already paid, because no formal release had been executed, and refused to take account of the purely moral aspects of the creditor's conduct; the great judge in the eighteenth century who refused to allow the indorsee of a promissory note to sue upon it, because by the common law things in action were not transferable, and would not listen to the settled custom of merchants to transfer such notes, nor to the statement of the London tradesmen as to the unhappy effect of such a ruling upon business, have their entire counterpart in the judges of one of the great courts

of the United States in the twentieth century to whom the economic and sociological aspects of a question appear palpably irrelevant.

The sixteenth- and seventeenth-century law was brought to take account of ethics. The eighteenth-century law came to receive the custom of merchants as part of the law of the land. May we not be confident that in the same way the law of the twentieth century will absorb the new economies and the social science of today and be made over thereby?

It is an infusion of social ideas into the traditional element of our law that we have to bring about; and such an infusion is going on. The right course is not to tinker with our courts and with our judicial organization in the hope of bringing about particular results in particular kinds of cases, at a sacrifice of all that we have learned or ought to have learned from legal and judicial history. It is rather to provide a new set of premises, a new order of ideas in such form that the courts may use them and develop them into a modern system by judicial experience of actual cases. A body of law which will satisfy the social workers of today cannot be made of the ultra-individualist materials of eighteenth-century jurisprudence and nineteenth-century common law based thereon, no matter how judges are chosen or how often they are dismissed.

✓ A master of legal history tells us that taught law is tough law. Certainly it is true that our legal thinking and legal teaching are to be blamed more than the courts for the want of sympathy with social legislation which has been so much in evidence in the immediate past. ✓ One might almost say that instead of recall of judges, recall of law teachers would be a useful institution. At any rate, what we must insist upon is recall of much of the juristic and judicial thinking of the last century.

For many reasons which cannot be taken up here, our conception of the end of the legal system came to be thoroughly individualistic. Legal justice meant securing of individual interests. It sought by means of law to prevent all interference with individual self-development and self-assertion, so far as this might be done consistently with a like self-development and self-assertion on the part of others. It conceived that the function of the state and of the law was to make it possible for the individual to act freely. Hence it called for a minimum of legal restraint, restricting the sphere of law to such checks as are necessary to secure "a harmonious coexistence of the individual and of the whole." This purely individualistic theory of justice culminated in the eighteenth century in the Declaration of the Rights of Man and the Bill of Rights so characteristic of that period. Spencer's formula of justice, "the liberty of each limited *only* by the like liberties of all," represents the ideal which American law has

had before it during its whole existence. In politics, in ethics, and in economics this conception has decayed, and has given way to a newer idea of justice. But it continues to rule in jurisprudence.

In contrast with such juristic thinking of the immediate past, which started from the premise that the object of the law was to secure individual interests and knew of social interests only as individual interests of the state or sovereign, the juristic thinking of the present must start from the proposition that individual interests are to be secured by law because and to the extent that they are social interests. There is a social interest in securing individual interests so far as securing them conduces to general security, security of institutions and the general rural and social life of individuals. Hence while individual interests are one thing and social interests another, the law, which is a social institution, really secures individual interests because of a social interest in so doing.

Study of fundamental problems of jurisprudence, not petty changes of the judicial establishment, is the road to socialization of the law. First of all, there must be a definition of social justice to replace the individualistic or so-called legal justice which we have; there must be a definition of social interests and a study of how far these are subserved by securing the several individual interests which the law has worked out so thoroughly in the past; there must be a study of the means of securing these social interests otherwise than by the methods which the past had worked out for purely individual interests. Second, there must be a study of the actual social effects of legal institutions and legal doctrines. Courts cannot do this, nor can law teachers or law writers, except within narrow limits. The futility of a self-sufficing, self-centered science of law has become apparent to jurists.

335. Law and Social Statics^a

BY OLIVER W. HOLMES

This case is decided upon an economic theory which a large part of the country does not entertain. If it were a question whether I agreed with the theory I should desire to study further and long before making up my mind. But I do not conceive that to be my duty, because I strongly believe that my agreement or disagreement has nothing to do with the right of the majority to embody their opinion in law. It is settled that state constitutions and laws may

^a*Lochner v. New York*, 198 U.S. 74. This is the well-known "bake-shop case." A statute passed by the New York legislature, regulating the hours of labor in bake shops, was declared unconstitutional. The selection given is an excerpt from a dissenting opinion (1904).

regulate life in many ways that we as legislators might think injudicious, or if you like, as tyrannical as this, and which equally interfere with the liberty of contract. This liberty of the citizen to do as he likes so long as he does not interfere with the like liberty of others to do the same, which has been a shibboleth for many well-known writers, is interfered with by school laws, by the post-office, by every state and municipal institution which takes his money for purposes thought desirable, whether he likes it or not. The Fourteenth Amendment does not enact Herbert Spencer's *Social Statics*. A constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relations of a citizen to the state, or of laissez faire. It is made for people of fundamentally differing views.

General propositions do not solve concrete problems. The decision will depend on a judgment or intuition more subtle than any articulate major premise. Every opinion tends to become law. I think that the word liberty in the Fourteenth Amendment is perverted when it is held to prevent the natural outcome of a dominant opinion, unless it can be said that a rational and fair minded man would necessarily admit that the proposed statute would infringe fundamental principles as they have been understood by the traditions and the laws of our people.

336. The Social Function of Law⁴

BY HOMER HOYT

The critics of the current legal system seem to be agreed as to the baneful effect of its static character. Law is said to be a survival of eighteenth-century philosophy which cannot be justly applied to twentieth-century society. The favorable hearing which this plea is receiving indicates that it is in keeping with the growing tendency of an age of industrial change to emphasize the dynamic and evolutionary elements of its institutions. The demand for relative standards of jurisprudence becomes more insistent, as people become more convinced of the unique and marvelous character of their own epoch. We are told that legal codes should be developed out of the experience of the society to which they are to be applied, and that any law whose basis is broader than the time and place in which it is now established, to the extent that it fails of this coincidence, is clearly unjust. In particular, our present society, which is so different from other societies both in degree of complexity and in kind of organization, necessarily requires rules of conduct which are adapted to its institutions. The scope of laws is not only to be narrowed to a brief time unit, but their application to different classes of individuals at

⁴1915.

the same moment is to be carefully restricted. As commonly expressed, justice consists in giving to every person a square deal, and this is generally interpreted to mean judgment of the individual by the rules of the game which were set for his particular social environment. Perfect justice could be secured in every case, according to these critics, by discarding past standards and by deciding each case upon its merits. This involves nothing less than the abandonment of objective rules of judgment, and the substitution in their place of the subjective test of the psychological laboratory. The indictment is thus chiefly directed against the social value of static standards of law.

The apologists for the existing legal institutions assert that stable standards of law are necessary to secure this very special consideration of the merits of each individual case, which constitutes the very essence of individual justice. They would remind their critics that legal principles originate in social intercourse, and are concerned with the conduct of individuals in relationships where some community of understanding is indispensable. The social conventions and institutions are the relatively static elements in society, and it is necessary for their function as media of social communication that they should be so. Their purpose is to furnish a convenient agency of mutual expression, which can be acquired with a minimum of effort on the part of the individual, and to establish an agreement among diverse and heterogeneous interests in regard to matters where unanimity is of great advantage to the individual. Law acquires its static character by becoming so familiar that it no longer requires conscious attention. Men form habits in regard to their legal institutions, for the same purpose that they form habits in regard to language—to economize the time and effort of carrying on relations with their fellows. Legal standards thus enter indissolubly into the thoughts, acts, and characters of men as a part of their fundamental assumptions, which they accept without question. Individual acts inevitably carry forward the theory of law which existed prior to their performance, and thus tend to perpetuate the same principles. The prohibition of retroactive laws is universally considered necessary to prevent confiscation of property, and forfeiture of vested rights, but it accomplishes its purpose by guaranteeing a certain degree of stability in our legal system. Justice to the individual, according to the conception entertained in the preceding paragraph, can be assured only by recognizing the social value of static laws in setting up guideposts to direct individuals to the legal road. The complexity of modern civilization confuses and bewilders one who has no definite knowledge of its laws. As an immigrant in a strange land

feels helpless and insecure because of ignorance of the unfamiliar social organization, so the native citizen is nonplused by shifting and unstable legal standards. The consequences of action may be that the individual is subjected to extraordinary civil and criminal liability, for society imputes legal responsibility to one definite act of the many which have co-operated to produce the final result. The criminal act itself is criminal in view of the social attitude which prevails at the time, and the justice of enforcing the social attitude is dependent upon announcement of it beforehand in terms sufficiently definite to put individuals upon their guard.

Uncertainty as to what is legal, when the consequences of guessing wrongly may result in heavy penalties, blights forward action in its very inception, at the moment when the individual is deciding to make the positive step required to overcome the safety and certainty of doing nothing. At this point the society whose duty it was to establish laws and administer justice finds itself deeply concerned, for upon the decision of the individuals depends its progress as a group. Activity of individuals is even more necessary to society than regulatory measures whose purpose is to secure the best type of activity. But when the rules of law depart from fixed standards to suit the exigencies of particular cases to such an extent that they cease to be trustworthy guides for future action, then law, instead of creating an attitude favorable to progress, deadens individual activity. In society as at present organized the social advantages of continued production and the opening of new lines of enterprise would be destroyed, were law made immediately responsive to social conditions, by the very agency which is designed to increase social efficiency. A fairly stable and certain standard of law must necessarily be established to tempt individual initiative, and this implies that individual standards of justice must give way to a common standard of justice, which all individuals having social dealings can understand and interpret. Otherwise the plea of unusual circumstances or peculiar temperament will readily lend itself to arbitrary and capricious rules of law, the very possibility of which will foster suspicion and distrust of judicial processes. It is only because men are fairly certain that the main bases of property and contract rights will not be suddenly and substantially altered to their disadvantage, that they strike out into new fields of enterprise. It is only because individuals are confident that the court will not construct special standards to apply to their acts, that they will proceed with decision upon tomorrow's work. If all things were subject to change, would anyone confine his attention to one task even for a moment? Entrepreneurs may be able to calculate with some degree of accuracy the probable changes in the

factors which will affect future markets for their products, but if the very standards by which they have made their calculations vary at the discretion of a future court, how accurately can they allow for these unprecedented psychological factors?

Definite rules of law are formulated by court decisions as well as by statutory enactment. In the case of court-made law the recognition of precedents is indispensable to the existence of the law, for a legal principle is not established until it comes to be acknowledged as binding upon the facts to which it applies. As fast as new laws are developed, the number of doubtful questions is diminished, and the road is cleared for fresh consideration of new situations which arise out of the dynamic progress of society. It is as necessary, therefore, that the courts be relieved of the enormous burden of reconsidering old issues, as it is for the individual to find definiteness in the law. As individuals accept the greater part of the questions arising out of their social relations as definitely settled, and proceed to expend money and effort upon the assumption that the definite rules will not be reversed, so the courts resolve new cases by comparing them with cases already decided. In thus basing their decisions on precedent, the courts are often unfairly accused of applying a blind rule of thumb to avoid the trouble of exerting ingenuity and using wisdom in devising methods of equitable relief. But it is manifestly far more unjust to reverse the settled principles upon the faith of which men have acquired power and governed their courses of action in the past than to enact into law the court's own unfettered opinion as to the justice of the case, which may or may not coincide with what is generally accepted. Considerations of practicability enforce this course upon the courts. The task of reconciling conflicting precedents itself gives the widest leeway for the exercise of ingenuity, and the frequency with which cases are decided by a divided opinion indicates the difficulty involved in finding a definite course. The application of legal principles is consequently far more than the readaptation of past rules to present situations. The growth of new social environments changes the force of old arguments and compels a modification of many rules. The precedent which was at first stated in a broad and abstract form is given definite meanings by concrete applications. Its logical relationship to other precedents is developed as occasion requires, and the extent of its scope is definitely determined by an interaction with other precedents. Into the old rules is infused the spirit of the new developments; the outworn and archaic elements are cast out and new elements are added. The whole system of jurisprudence is made to grow by mingling into the substance of the law the viewpoints of each successive age.

B. PRIVATE PROPERTY

337. Progress and Property⁵

BY PAUL ELMER MORE

Not even a Rousseau could cover up the fact of the initial inequality of men by the decree of that great Ruler or Law which makes one vessel for dishonor and another for honor. This is the so-called injustice of nature. And it is equally a fact that property means the magnifying of that natural injustice into that which you may deplore as unnatural injustice, but which is a fatal necessity, nevertheless. This is the truth, hideous if you choose to make it so to yourself, true to those, whether the favorites of fortune or not, who are themselves true—ineluctable at least.

Unless we are willing to pronounce civilization a grand mistake, as, indeed, religious enthusiasts have ever been prone to do (and humanitarianism is more a perverted religion than a false economics), unless our material progress is all a grand mistake, we must admit, sadly or cheerfully, that any attempt by government to ignore that inequality may stop the wheels of progress or throw the world back into temporary barbarism, but will surely not be the cause of wider or greater happiness. It is not heartlessness, therefore, to reject the sentiment of the humanitarian, and to avow that the security of property is the first and all-essential duty of a civilized community.

And we may assert this truth more bluntly, or, if you please, more paradoxically. Although, probably, the rude government of barbarians, when the person was scantily covered or surrounded by property, may have dealt principally with wrongs to persons, yet the main care of advancing civilization has been for property. One reason, of course, is that the right of life is so obvious, and in the nature of things has been so long and universally recognized. But, after all, life is a very primitive thing. Nearly all that makes it more significant to us than to the beast is associated with property. To the civilized man the rights of property are more important than the right to life.

In our private dealings with men, we may ignore the laws of civilization with no harm resulting to society; but it is different when we undertake to lay down general rules of practice. We are essentially, not legislators, but judges. What then, you ask, are human laws? In sober sooth, it is not we who create laws; we are rather finders and interpreters of natural laws, and our decrees are merely

⁵Adapted from an article entitled "Property and Law," *Unpopular Review*, III. 259-68. Copyright, 1915.

the application of our knowledge, or our ignorance, to particular conditions. When our decrees are counter to natural law, they become at best dead letters, and at worst, agents of trouble and destruction. Law is but a rule for regulating the relations of society for practical purposes. We are bound to deal with man as he actually is. So, if our laws are to work for progress, they must recognize property as the basis of civilization, and must admit the consequent inequality of conditions among men. They will have relatively little regard for labor in itself or for the laborer in himself, but they will provide rigidly that labor shall receive the recompense it has bargained for, and that the laborer shall be secure in the possession of what he has received. We may try to teach him to produce more, or to bargain better, but in the face of all appeals of sentiment society must learn again today that it cannot legislate contrary to the decree of fate. Law is concerned primarily with the rights of property.

So directly is the maintenance of civilization and peace and all our welfare dependent upon this truth—that it is safer, in the utterance of law, to err on the side of natural equality than on the side of ideal justice. We can do something to control the power of cunning and rapacity, and to make the distribution of material advantages fall more in conformity with superiority of character and culture. We can go a little way, and very slowly, in the endeavor to equalize conditions by the regulation of property; but the elements of danger are always near at hand and insidious; and undoubtedly any legislation that deliberately releases labor from the obligations of contract, and permits it to make war on property with impunity, must be regarded as running counter to the first demands of society. It is an ugly fact that, under cover of the natural inequality of property, evil and greedy men will act in a way that can only be characterized as legal robbery. The state should prevent such action so far as it safely can. Yet even here, in view of the magnitude of the interests involved, it is better that legal robbery should exist along with the maintenance of law, than that legal robbery should be suppressed at the expense of law.

You may to a certain extent control property and make it subservient to the ideal nature of man; but the moment you deny its rights, or undertake to legislate in defiance of them, you may for a time unsettle the very foundations of society, you will certainly in the end render property your despot and so produce a materialized and debased civilization. Manifestly, the mind will be free to enlarge itself in immaterial interests only when the material basis is secure, and without a certain degree of such security a man must be anxious over material things and preponderantly concerned with

them. And, manifestly, if this security is dependent upon the right of property, and these rights are denied or belittled in the name of some impossible ideal, it follows that the demands of intellectual leisure will be regarded as abnormal and anti-social.

No doubt the ideal society would be that in which every man should be filled with noble aspirations. But I am not here concerned with utopian visions. My desire is to confirm in the dictates of their own reason those who believe that the private ownership of property is, with very limited reservations, essential to the material stability and progress of society. We who have this conviction need to remind ourselves that laws which would render capital insecure, and, by a heavy income tax or other discrimination in favor of labor, would deprive property of its power of easy self-perpetuation, though they speak loudly in the name of humanity, will in the end be subversive of those conditions under which alone any true value of human life can be realized.

This, I take it, is the reason that the church and the university have almost invariably stood as strongly reactionary against any innovation which threatened the entrenched rights of property. It is not at bottom the greed of possession that moves them, nor are we justified in casting into their teeth the reproach that they who profess to stand for spiritual things are in their corporate capacity the most tenacious upholders of worldly privilege. They are guided by an instinctive feeling that in this mixed and mortal state of our existence, the safety and usefulness of the institutions they control are finally bound up with the inviolability of property which has been devoted to unworldly ends. For if property is secure it may be a means to an end, whereas if it is insecure it will be the end itself.

338. Mine—Property and Rights^a

BY DAVID M. PARRY

1. Man must work for a living. He would have no intelligence if he lived in a Garden of Eden, because if Nature provided all his needs ready to hand for his use, there would be no reason for him to do any thinking, and the result would be that he wouldn't think. Therefore it is in order to make him develop his intelligence that man is compelled to wrestle with nature for his livelihood.

2. Each man is entitled to the results of his own exertions. To say otherwise would be to assert that some men have the right to live on the fruits of the toil of others without working themselves, which would be contrary to our first proposition. Hence personal

^aAdapted from *To Organized Labor* (1903), pp. 16-18.

ownership of property is a necessary deduction from the law that man must work for a living.

3. Each individual is entitled to freedom of action. Being assured that what he produces is his own he is constantly spurred on to develop his capacity to produce. Being assured also that he cannot profit by another's exertions he realizes that he is responsible to himself alone for what he makes out of himself. Therefore each man has an undeniable right to dispose of his own time and labor as he sees fit, or in other words to work out his own destiny. The effect of this is to develop strong, self-reliant and intelligent men. It brings into play the creative faculty of man, his highest faculty, and the faculty that constitutes him a free agent in so far as he is such an agent.

4. It is right and just that one man should obtain more of this world's goods than another. Since personal ownership of property and individual freedom are both valid deductions from the first premise that all men shall work, then no complaint can honestly be made because one man by superior exertion or ability manages to produce more than another, and consequently has more to show for his labor than another. The fact that one man succeeds in making himself a better living than others is itself a spur to other men to try all the harder. This is what causes progress and the evolution of the race.

5. Capital arises by reason of the fact that one man can produce and own more than another. Some men find that they can produce more than they absolutely need for themselves, and therefore they store up some of their labor in making a machine, and this machine is capital. Here is your frightful "bugbear," capital, coming into existence as the direct and legitimate result of the so-called primal curse that man must labor. It is born as the result of the industry, thrift, self-sacrifice, and intelligence of the few as compared to the many.

6. Industrial ownership of capital is not only the direct deduction from the right of every man to that which he possesses, but it is also necessary for its creation. Men will waste their property in fast living or they will work only part of the time if they find that there is no profit in saving. If a man employs men to make a machine and pays them out of his savings, certainly these men have no valid title to the machine, for they have received for their toil as much, if not a little more, than they would have received for any other labor they could have performed. Neither have the men who are subsequently employed to run the machine any title of ownership in it, for they certainly cannot claim to have made it. The ownership correctly lies in the man who paid for the making of it, and the fact that men

can convert their savings into a productive machine that will grind out more savings is the incentive that causes men to have machinery made.

7. Capital, despite individual ownership, benefits the many much more than it does the few. It is in fact emancipating man from drudgery and poverty. Capital brings to the assistance of man the forces of nature in producing commodities. It not only enables him to produce the things he needs or desires with the expenditure of less labor than formerly, but it constantly tends to lift him up from lower to higher pursuits.

8. Wages are dependent upon the aggregate production. If a nation produces but little there is but little to divide. The opposite is true if it produces a great deal. Now the utilization of capital is the only method of greatly increasing the production per capita. Strikes, organized idleness, boycotts, etc., cannot fail in reducing instead of increasing the general rate of wages, and that because they decrease the aggregate production instead of increasing it. Since they cause less to be made than would have been made, it is a clear mathematical proposition that some are going to suffer when it comes to casting up the balance sheet.

9. The law of supply and demand is the great law regulating industry under this individualistic or capitalistic régime. It operates (1) to direct the energies of the nation along channels that will be the most profitable to all; (2) it makes on the whole the highest possible use of every individual according to his capability and the need that exists for various kinds of services he can perform; (3) it regulates the accumulation of capital, tending to increase its accumulation more at one time than at another, dependent upon the urgency of the need for it; (4) it increases nominal wages and decreases the prices of commodities as it becomes more utilized, thus automatically giving to labor the benefits of capital as fast as it is to the interest of labor that it should be done.

339. My Apology

BY P. PROPERTY

What have I to say why judgment should not be passed against me? why I should not be banished from human society? why, with creatures of darkness, I should not be cast into the outer void? I have little to say. But my long and effective services to society speak eloquently for themselves, and I may as usual content myself with few words. I need only enumerate in briefest form the record of my accomplishments, and I feel that my defense is complete.

I mention my achievements not boastfully, being as modest as my first name Private signifies, but only as earnest of what society may expect from me in the future.

For society, and in furtherance of civilization, I, Private Property, assert that I have performed these services, to-wit:

First, I have rendered the fundamental conditions of social and industrial life safe and secure. Before I came into my own, the power to seize and hold summed up the ethics of ownership. Energies that might have gone into more productive employments were used in defending one's own or in appropriating one's neighbor's. But I established and secured social sanction and universal respect for the right of possession.

Second, the security thus afforded had caused the energies of men to be diverted from the acquisition to the production of wealth. It has led to the utilization of natural resources, and has provided opportunity for the use of long-continued and consistent industrial policies which have caused material goods to increase verily a hundred fold.

Third, such security has furnished an incentive to man as a worker to utilize his productive capacities to the full. It has caused him to sow, because it has promised that he, and not another, should reap. It has led him to sacrifice immediate gain in establishing new processes and in devising new instruments of production to the end that the earth might be crowned with abundance.

Fourth, I plead innocent of the charge of having favored a privileged "leisure class," upon whom I have showered plenty that has been wasted in riotous living. It is true that I have conferred wealth upon a few. But these few I have not particularly favored. I have chosen them for highly important and extremely dangerous social service. I have assigned to them the task of experimentation in consumption. Whatever bad they have found they have discarded. The good that they have discovered has in time been made the property of the masses. They are the vanguard of my army which is engaged in raising the standard of living. The goods supplied to them are not rewards; they consist only of the laboratory materials necessary to the work which they are doing. Witness their suffering, their costs, and you can appreciate the heroism which makes them willing to serve society in so dangerous and important an undertaking. The extent to which, through their pioneer service, the formerly rigid boundaries of consumption have been extended attests my wisdom.

Fifth, I have greatly increased the product of industry by the use of vast stores of capital. The economic inequality which I

have perpetuated has been the cause of the existence of so fruitful a fund. For its bulk has come from the very large incomes whose source I am. The savings which become the capital that turns the wheels of our mills, runs our machines, and speeds our trains across the continent on their missions of service are possible only because of me. And, but for the security which I offer, the investment of these savings would be impossible.

Sixth, I supply the people with abundance and contribute to the fullness of their lives. The security which I have brought about has almost eliminated risks. The result is decreased costs, which I generously offer to the public in decreased prices. The long-time productive operations, the improvements in technique, and the cumulative investment of capital, which I have brought about, confer the favors of plenty, variety, and cheapness upon all sorts and conditions of men. My aristocratic methods have been mere devices for securing democratic ends. I have forced my owners to use me productively. I have made them stewards of the commonweal.

Seventh, I have led society in its development to higher and higher planes. Out of my abundance they have been able to satisfy more and more of their material wants. The certainty with which I have endowed the satisfaction of the necessary material wants has enabled those who choose to give of their time, energy, and means to the immaterial things of life. Our culture, with its wide horizon and its varied content, is my handiwork. That civilization is not coarse and material and brutal is my doing.

Eighth, I have prevented a passing sentimentalism from sacrificing these more permanent values to the passing fancy of the moment. I have, at the cost of much misunderstanding and malignant criticism, prevented the wealth that was needed for a richer life for the generations of the future from being wasted in satisfying the immediate wants of a few surplus individuals who promised no contribution to culture. I have preferred to have such wealth used in enlarging capital, thus making for bounty of goods, and in social experimentation whose end was to lead men to richer and fuller life. I have seen clearly that a deficiency of human life could easily be supplied within a generation, but that a deficiency in capital can never be made up; that cumulatively it becomes greater as the years pass; and that it must deny life to many yet unborn and rob others of comforts which otherwise would have made their lives less vain and hollow.

Ninth, I have proved myself the custodian of peace and have laid the foundations of a world-wide Christian community. The system of vested interests with which I have surrounded labor and

capital has done more for the cause of peace than all other agencies combined. For I have increased many fold the costs to all classes of engaging in war. The world-wide industrial system which I have wrought is more powerful than all armaments combined in protecting a state against the encroachments of another state and it contributes more to nation's understanding of nation than the whole world-wide system of diplomacy. My success has not been complete, but that merely makes my continued presence and activity all the more necessary.

I would not detract one whit from the good intentions of my malefactors. I bear them no malice. My only plea is that I be judged according to my fruits. I am done.

340. The Constitutional Position of Property in America⁷

BY ARTHUR T. HADLEY

European observers who study either the specific industrial questions which have come before the American people for their solution, or the general relations between the industrial activity of the government and that of private individuals, are surprised at a certain weakness of public action in all these matters. Our legislatures are often ready to pass drastic measures of regulation; they are rarely willing to pursue a consistent and carefully developed policy for the attainment of an industrial end. The people often declaim against the extent of the powers of private capital; they are seldom willing to put that capital under the direct management of the government itself. The man who talks loudest of the abuses of private railroad management shrinks from the alternative of putting railroads into the direct control and ownership of the state.

The fact is, that private property in the United States, in spite of all the dangers of unintelligent legislation, is constitutionally in a stronger position, as against the government and the government authority, than is the case in any country of Europe. However much public feeling may at times move in the direction of socialistic measures, there is no nation which by its constitution is so far removed from socialism or from a socialistic order. This is partly because the governmental means provided for the control or limitation of private property are weaker in America than elsewhere, but chiefly because the rights of private property are more formally established in the Constitution itself.

⁷ From an article with the foregoing caption in the *Independent*, April 16, 1908. Copyright.

This may seem a startling proposition; but I think a very brief glance at the known facts of history will be sufficient to support and sustain it. For property in the modern sense was a comparatively recent development in the public law of European communities. In the United States, on the contrary, property in the modern sense represents the basis on which the whole social order was established and built up.

Down to about the thirteenth century the system of land tenure in every country of Europe was a feudal one. It was based upon military service. A man held a larger or smaller amount of land on account of his larger or smaller amount of fighting efficiency. There were many rival claimants for the land. The majority of those who wanted to cultivate the soil were unable to protect themselves against the dangers of war. In the absence of an efficient protector or overlord no amount of industry was effective and no large accumulation of capital was possible. The services of the military chief were indispensable as a basis for the toil of the laborer or the forethought of the capitalist. It was the military chief, therefore, who enjoyed not only the largest measure of respect, but the strongest position under the law. As the condition of public security grew better these things changed. From the fourteenth century to the nineteenth Europe has witnessed the gradual substitution of industrial tenures for military tenures, the gradual development of a system of property law intended to encourage the activities of the laborers and the capitalists, rather than to reward the services of the successful military chieftain. But down to the end of the eighteenth century this new sort of private property represented a superadded element rather than an integral basis of the constitution of society. And even the developments of the last hundred years in constitutional law and industrial activity have not been able to obliterate a certain sense of newness when we contrast the position of the aristocracy of wealth with that of the aristocracy of military rank.

In the American colonies, on the other hand, where the public law of the United States first took its rise, conditions were wholly different. People wanted no military chieftain to protect them, no overlord to rule them. Each man was familiar with the use of a gun—how familiar, the overwhelming losses of the British troops in the Revolutionary War, when brought face to face with untrained farmers, testify very clearly—and was ready to take his share in protecting the community against the attacks of the Indians or their French leaders. There was plenty of land for all—plenty of opportunity for the exercise of labor and the use of capital. That man did the most for society who worked hardest and saved most. Under

such circumstances the laws were so framed and interpreted as to give the maximum stimulus to labor and the maximum rights to capital. There was no military aristocracy which stood in the way. Governors were at times sent over from England who tried their best to assert Crown rights for themselves and their subordinates. But the net effect of the activity of these governors was probably to weaken rather than to strengthen the claims of feudal authority, because they made themselves so unpopular that they united the spirit of the colonists in their resistance to all such claims and pretensions.

At the time, therefore, when the United States separated from England, respect for industrial property right was a fundamental principle in the law and public opinion of the land. It was natural enough that this should be so at a period when every man either held property or hoped to do so. The strange thing is that this principle should have survived with so little change down to the present day. But there were certain circumstances connected with the adoption of the Constitution of the United States which provided for the perpetuation of this state of things—which made it difficult for public opinion in another and later age, when property-holding was the less widely distributed, to alter the legal conditions of the earlier period.

During the War of the Revolution, from 1775 to 1782, and in the years immediately thereafter, the American Union had been a league of independent states, and a very loose one. They had formed an organization for mutual protection in carrying on the war. But this organization, even while the war lasted, was very weak indeed. The imminence of a common danger, which threatened to involve all, and the personality of a few leaders, of whom George Washington was the most conspicuous, were the only things that enabled the different colonies to act together. When independence was conceded by England in 1782, and the restraints of common danger were removed, the hopeless weakness of the central government became obvious. From 1783 to 1789 the United States had no means of securing concert of action at home or respect and consideration abroad. Clear-headed men felt the absolute necessity of centralization. The Constitution of 1788 was the result of a set of contracts, agreements, and compromises between two pretty evenly balanced parties—a states rights party, which wished to limit the powers of the federal government, and a national party, which was anxious to set some practical control on the autonomy of the state government.

The delegates to the convention of 1787 were concerned with questions of constitutional law in the narrower sense. They were not thinking of the legal position of private property. But it so happened

that in making mutual limitations upon the powers of the federal and the state government they unwittingly incorporated into the Constitution itself certain very extraordinary immunities to the property holders as a body.

It was in the first place provided that there should be no taking of private property without due process of law. The states rights men feared that the federal government might, under the stress of military necessity, pursue an arbitrary policy of confiscation. The Federalists, or national party, feared that under the influence of sectional jealousy one or more of the states might pursue the same policy. This constitutional provision prevented the legislature or executive, either of the nation or of the individual states, from taking property without judicial inquiry as to the necessity, and without making full compensation even in case the result of such inquiry was favorable to the government. No man foresaw the subsequent effect of this provision in preventing a majority of voters, acting in the legislature or through the executive, from disturbing existing arrangements with regard to railroad building or factory operation until the railroad stockholders or factory owners had had the opportunity to have their case tried in the courts.

There was another equally important clause in the Constitution providing that no state should pass a law impairing the obligation of contracts. In this case also a provision which was at first intended to prevent sectional strife and to protect the people of one locality against arbitrary legislation in another became a means of strengthening vested rights as a whole against the possibility of legislative or executive interference. Nor was the direct effect of these two clauses in preventing specific acts on the part of the legislature the most important result of their existence. They were a powerful means of establishing the American courts in that position of supremacy which they enjoy under the Constitution. For whenever an act of the legislature or the executive violated, or even seemed to violate, one of these clauses, it came before the courts for review. If the Federal courts said that the act of a legislature violated one of these provisions it was blocked—rendered powerless by a dictum of the judges. I do not mean that these two clauses in the Constitution were the chief source of judicial power. That power has been due primarily to the traditional respect for the judicial office existing in the United States, which has rendered it almost impossible for any but men of learning and character to aspire to it; and, secondarily, to the very great ability that certain of the early American judges—notably Marshall, Story and Kent—showed in expounding the law in such manner as to command universal approval. But if these provisions

did not lie at the foundation of the positive authority of the judges, they were unquestionably a most powerful instrument in practically limiting the authority of legislatures, and to that extent in strengthening the rights of the property holders.

The rights of individual owners against legislative interference were thus most fully protected. But how was it when property was in the hands of corporations?

Here also the power of control by the government was weakened and the rights and immunities of the property holders correspondingly strengthened by two events, whose effect upon the modern industrial situation may be fairly characterized as fortuitous. One of these was the decision in the celebrated Dartmouth College case in 1819; the other was the passage of the Fourteenth Amendment to the Constitution of the United States in 1868.

I call their effects fortuitous, because neither the judges who decided the Dartmouth College case nor the legislators who passed the Fourteenth Amendment had any idea how these things would affect the modern industrial situation. The Dartmouth College case dealt with an educational institution, not with an industrial enterprise. The Fourteenth Amendment was framed to protect the negroes from oppression by the whites, not to protect corporations from oppression by the legislature. It is doubtful whether a single one of the members of Congress who voted for it had any idea that it would touch the question of corporate regulation at all. Yet the two together have had the effect of placing the modern industrial corporation in an almost impregnable constitutional position.

In 1816 the New Hampshire legislature attempted to take away the charter rights of Dartmouth College. Daniel Webster was employed by the college in its defense, and his reasoning so impressed the court that they committed themselves to the position that a charter was a contract; that a state having induced people to invest money by certain privileges and immunities, could not at will modify those privileges and immunities thus granted. Whether the court would have taken so broad a position if the matter had come before it thirty or forty years later, when the abuses of ill-judged industrial charters had become more fully manifest, is not sure, but, having once taken this position and maintained it in a series of decisions, the court could not well recede from it. Inasmuch as many of the corporate charters granted by state legislation had an unlimited period to run, the theory that these instruments were contracts binding the state for all time had a very important bearing in limiting the field within

which a legislature could regulate the activity of such a body, or an executive interfere with it.

Again, by the Fourteenth Amendment to the Constitution of the United States every state was forbidden to interfere with the civil rights of any person or to treat different persons in an unequal way. This amendment to the Constitution, passed just after the close of the Civil War, was intended to prevent the Southern states readmitted, or on the point of being readmitted, to the Union from abridging the rights of the negro members of the commonwealth. A number of years elapsed before the effect of the amendment upon the constitutional position of railroad and industrial corporations seems to have been fully realized. But in 1882 the Southern Pacific Railroad Company, having been, as it conceived, unfairly taxed by the assessors of a certain county in California, took the position that a law of the state of California taxing the property of a corporation at a different rate from that under which similar property of an individual would be taxed was in effect a violation of the Fourteenth Amendment to the Constitution, because a corporation was a person and therefore entitled to equal treatment. This view, after careful consideration, was upheld by the Federal courts. A corporation, therefore, under the law of the United States, is entitled to the same immunities as any other person; and since the charter creating it is a contract, whose obligation cannot be impaired by the one-sided act of the legislature, its constitutional position as a property holder is much stronger than anywhere in Europe.

Under the circumstances, it is evident that large powers and privileges have been constitutionally delegated to private property in general and to corporate property in particular. I do not mean that property owners, and specifically the owners of corporate property, have more *practical* freedom from interference in the United States than they do in some other countries, notably in England. Probably they do not have as much. But their theoretical position—the sum of the conditions which affect their standing for the long future and not for the immediate present—is far stronger in the United States. The general status of the property owner under the law cannot be changed by the action of the legislature or the executive, or the people of a state voting at the polls, or all three put together. It cannot be changed without either a consensus of opinion among the judges, which should lead them to retract their old views, or an amendment of the Constitution of the United States by the slow and cumbersome machinery provided for that purpose, or, last—and I hope most improbable—a revolution.

When it is said, as it commonly is, that the fundamental division of powers in the modern state is into legislative, executive and judicial, the student of American institutions may fairly note an exception. The fundamental division of powers in the Constitution of the United States is between voters on the one hand and property owners on the other. The forces of democracy on one side, divided between the executive and the legislative, are set over against the forces of property on the other side, with the judiciary as arbiter between them; the Constitution itself not only forbidding the legislature and executive to trench upon the rights of property, but compelling the judiciary to define and uphold those rights in a manner provided by the Constitution itself.

This theory of American politics has not often been stated. But it has been universally acted upon. One reason why it has not been more frequently stated is that it has been acted upon so universally that no American of earlier generations ever thought it necessary to state it. It has had the most fundamental and far-reaching effects upon the policy of the country. To mention but one thing among many, it has allowed the experiment of universal suffrage to be tried under conditions essentially different from those which led to its ruin in Athens or in Rome. The voter was omnipotent—within a limited area. He could make what laws he pleased, as long as those laws did not trench upon property right. He could elect what officers he pleased, as long as those officers did not try to do certain duties confided by the Constitution to the property holders. Democracy was complete as far as it went, but constitutionally it was bound to stop short of *social* democracy. I will not go so far as to say that this set of limitations on the political power of the majority in favor of the political power of the property owner has been a necessary element in the success of universal suffrage in the United States. I will say unhesitatingly that it has been a decisive factor in determining the political character of the nation and the actual development of its industries and institutions.

C. INDUSTRIAL LIBERTY

341. The Mediatory Character of Freedom^s

BY THOMAS HILL GREEN

We shall probably all agree that freedom, rightly understood, is the greatest of blessings. But when we thus speak of freedom, we

^sAdapted from the "Lecture on Liberal Legislation and Freedom of Contract," *Works*, III, 370-73. Edited by R. L. Nettleship, 1880.

do not mean freedom from restraint or compulsion. We do not mean merely freedom to do as we like quite irrespective of what it is that we like. We do not mean a freedom that can be enjoyed by one man at a cost of a loss of freedom to others. We mean rather a positive power of doing or enjoying something that is worth doing or enjoying, and that, too, something that we do or enjoy in common with others. We mean by it a power which each man exercises through the help or security given him by his fellow-men, and which in turn he helps to secure for them. When we measure the progress of a society by its growth in freedom, we measure it by the increasing development on the whole of those powers of contributing to social good with which we believe the members of the society to be endowed; in short, by the greater power on the part of the citizens to make the most and best of themselves.

Thus, though there can be no freedom among men who act under compulsion, yet the mere removal of compulsion is in itself no contribution to true freedom. In one sense no man is so well able to do what he likes as the wandering savage. He has no master. There is no one to say him nay. Yet we do not count him really free, because the freedom of savagery is not strength, but weakness. The actual powers of the noblest savage do not compare with those of the humblest citizen of a law-abiding state. He is not the slave of man, but he is the slave of nature. Of compulsion by natural necessity he has plenty of experience, though of restraint by society none at all. Nor can he deliver himself from that compulsion except by submitting to this restraint. So to submit is the first step in true freedom, because the first step in the exercise of the faculties with which man is endowed.

But we rightly refuse to recognize the highest development on the part of an exceptional individual or exceptional class, as an advance toward the true freedom of man, if it is founded on a refusal of the same opportunity to other men. The powers of the human mind have probably never attained such force and keenness as among the small groups of men who possessed civil privileges in the small republics of antiquity. But the civilization and freedom of the ancient world were short-lived because they were partial and exceptional. If the ideal of true freedom is the maximum of power for all the members of human society to make the best of themselves, we are right in ranking modern society, with all its confusion and ignorant license and waste of effort, above the most splendid of ancient republics.

If I have given a true account of that freedom which forms the goal of social effort, we shall see that freedom of contract is

valuable only as a means to an end. That end is what I call freedom in the positive sense, the liberation of the powers of all men equally for contribution to a common good.

342. Contract and Personal Responsibility*

BY ARTHUR T. HADLEY

A statement of the history of modern freedom, and one that ought to command assent in the twentieth century, is that it represents a passage from a system of obligations imposed by the community to a system of self-imposed obligations. Duty, in the early stages of society, is enforced by lynch law. In the later stages it is enforced by the individual conscience. It is not that the obligations recognized are narrower or less exacting in the latter case than in the former. They tend to become wider and more exacting. But the method of enforcement allows the individual to get at things in his own way. We have passed from a system of status, where each man was born into a set of legal rules and duties imposed upon him for all time, to a system of contract, where each man's rights and duties are largely those which he has made for himself. This change has not enabled man to relieve himself of obligations to his fellow-men. It has allowed these obligations to take forms suited to the varied powers of the individual and the varied needs of society. We can trace at least some of the stages in this process of evolution.

The system of caste, or status, is a survival of the old tribal organization, where law and morals were undistinguished; where social arrangements existed by the authority of the gods; and where any attempt to disturb them was an act of sacrilege. In course of time, however, there came about an alteration in character of the legal penalties. Where one man had wronged another unintentionally, it became possible not only to inflict punishment, but to exact compensation. Instead of the fine which was exacted for an offense against public order, the community could compel the payment of damages to make good the loss to the person injured. Even where the wrong was intentional the idea of compensation could enter into the penalty. When once the legal authorities grasped this possibility of using a civil remedy, instead of a criminal one, it became possible to allow to any man who could pay substantial damages a degree of personal liberty which was not possible under a system where every infraction of others' rights must be treated as a crime and visited by criminal penalties.

*Adapted from *The Relations between Freedom and Responsibility in the Evolution of Democratic Government*, pp. 74-83. Copyright by Yale University Press, 1903.

From the development of civil damages it was but a short step to the system of contracts. The essential idea of a contract is that one or both parties agree to perform a certain service at a future time. The obligation which a man assumes in a contract is voluntary until he has made the agreement. After that society will compel him to pay damages for its breach, just as it would compel him to pay damages for the breach of any of the other rights of his fellow citizens. It is therefore, in its very essence, a combination of freedom and responsibility. It is a means which the community can adopt for getting work done by the voluntary assumption of obligations on the part of its members. These obligations they can be compelled to perform or to furnish compensation to the other party. Among the many brilliant contributions of the Roman lawyers to the progress of civilization, there was probably none so far-reaching as their development of the theory of contract. For, wherever this theory was applied, it taught people that the exercise of freedom involved the assumption of responsibility, and could safely be combined with it.

The lesson was not easy to learn, and the Roman lawyers did not succeed in teaching it to the civilized world for all time. The irruption of the barbarians into Europe brought with it, under the feudal system, a nearly complete return to the old theory of a status. But with the close of the feudal period the ideas of the Roman law were taken up and widely expanded. The power of making a contract, under the old Roman law, had been practically limited to the few men who could furnish security for the performance of their obligations. It belonged chiefly to the minority of freemen who enjoyed the benefits of slavery. At the close of the Middle Ages, however, the reintroduction of the idea of contractual obligation as a basis for social order was accompanied by a system of emancipation which gave the laborer a certain amount of property right in the product of his toil. The substitution of industrial for military tenure put a much larger number of people in a position to furnish security. It enabled the people as a whole, instead of the privileged few, to enjoy the system of education in responsibility which marks the growth of contract law.

For our modern law of contract is a most valuable system of moral education, operating alike upon lawyers and upon laymen, and enabling us to make progress both in our judicial ethics and in our general tone of public morality. The whole English commercial law of the seventeenth and eighteenth centuries, with its distinctions, sometimes fine drawn but always well drawn in matters like agency or warranty, competence or negligence, involves a systematic enforce-

ment of responsibility under the forms of freedom. If we wish to see what this legal development has accomplished in the way of introducing responsibility, we have only to contrast our standards of practice and ethics in those lines where commercial law has been developing for centuries with those where its application is comparatively new. If I sell a cow on the basis of certain representations, which prove to be false, the law holds me to an implied contract of warranty, even if I have explicitly disclaimed any intention to warrant the animal. If I sell a railroad under similar circumstances the law offers the sufferer no corresponding remedy; and no small section of the public applauds the seller for the shrewdness which he has displayed in the transaction. If I use an individual position of trust to enrich myself at the expense of others, the law will compel me to make restitution, even where criminal intent was absent. But if I profit by similar errors in the management of a corporate trust, the difficulty of bringing the responsibility home is great indeed.

It is the ideal of a free community to give liberty wherever people are sufficiently advanced to use it in ways which shall benefit the public, instead of ways which will promote their own pleasure at the public expense. And it has been the practice of the most successful communities to go farther than this, and give freedom somewhat in advance of this ethical development. Liberty is directly advantageous wherever the ethical development of the community fits people for its use; it is likely to prove indirectly advantageous wherever there is a fair prospect that they can be taught to improve their ethical standards in the immediate future.

343. Labor and Freedom of Contract¹⁰

What "Freedom of Contract" Has Meant to Labor

1. Denial of eight-hour law for women in Illinois.
2. Denial of eight-hour law for city labor or for mechanics and ordinary laborers.
3. Denial of ten-hour law for bakers.
4. Inability to prohibit tenement labor.
5. Inability to prevent by law employer from requiring employee as condition of securing work, to assume all risk from injury while at work.
6. Inability to prohibit employer selling goods to employees at greater profit than to non-employees.

¹⁰Adapted from a bulletin used at the Chicago Industrial Exhibit in 1906.

7. Inability to prohibit mine owners screening coal which is mined by weight before crediting same to employees as basis of wages.

8. Inability to legislate against employer using coercion to prevent employee becoming a member of a labor union.

9. Inability to restrict employer in making deductions from wages of employees.

10. Inability to compel by law payment of wages at regular intervals.

11. Inability to provide by law that laborers on public works shall be paid prevailing rate of wages.

12. Inability to compel by law payment of extra compensation for overtime.

13. Inability to prevent by law employer from holding back part of wages.

14. Inability to compel payment of wages in cash; so that employer may pay in truck or scrip not redeemable in lawful money.

15. Inability to forbid alien labor on municipal contracts.

16. Inability to secure by law union label on city printing.

344. Static Assumptions of Contractual Freedom¹¹

BY ROSCOE POUND

"The right of a person to sell his labor," says Mr. Justice Harlan, "upon such terms as he deems proper is, in its essence, the same as the right of the purchaser of labor to prescribe the conditions upon which he will accept such labor from the person offering to sell it. So the right of the employee to quit the service of the employer, for whatever reason, is the same as the right of the employer, for whatever reason, to dispense with the services of such employee. In all such particulars the employer and employee have equality of right, and any legislation that disturbs that right is an arbitrary interference with the liberty of contract, which no government can legally justify in a free land."¹² With this positive declaration of a lawyer, the culmination of a line of cases now nearly twenty-five years old, a statement which a recent writer on the science of jurisprudence has deemed so fundamental as to deserve quotation and exposition at an unusual length, let us compare the equally positive statement of a sociologist: "Much of the discussion about 'equal

¹¹Adapted from "Liberty of Contract," in 18 *Yale Law Journal* (1909), pp. 454-87.

¹²*Adair v. U.S.*, 208 U.S. 161.

rights' is utterly hollow. All this ado about the system of contract is surcharged with fallacy."

To everyone acquainted with the facts at first hand the latter statement goes without saying. Why, then, do the courts persist in the fallacy? Why do so many of them force upon legislation an academic theory of equality in the face of practical inequality? Why do we find a great and learned court in 1908 taking a long step into the past of dealing with the relations between employer and employee in railway transportation, as if the parties were individuals, as if they were farmers haggling over the sale of a horse? Why is the legal conception of the relation of employer and employee so at variance with the common knowledge of mankind? Surely the cause of such doctrine must lie deep. Let us enquire then what these causes are and how they have operated to bring about the present state of the law of freedom of contract.

There is no doubt that the theory of "natural rights" is at the basis of modern conceptions of freedom of contract. This began as a doctrine of political economy, as a phase of Adam Smith's doctrine which we commonly call *laissez faire*. It was propounded as a utilitarian principle of politics and legislation by Mill. Spencer derived it from his formula of justice. In this way it became a chief article in the creed of those who sought to minimize the functions of the state, to insist that the most important of its functions was to enforce by law the obligations created by contract. This theory has shown itself present in both legislation and judicial decisions. As a consequence the doctrine of liberty of contract is bound up in the decisions of our courts with a narrow view as to what constitutes special or class legislation, that greatly limits effective law making. For one thing there is the doctrine that apart from constitutional restrictions there are individual rights resting on a natural basis, to which the courts must give effect, beyond the control of the state. "In the judicial discussions of liberty of contract this idea has been very prominent. One court reminds us that natural persons do not derive their right to contract from the law."¹³ Another court in passing adversely upon legislation against company stores, says any classification is arbitrary and unconstitutional unless it proceeds on "the natural capacity of persons to contract."¹⁴ Another, in passing on a similar statute, denies that contractual capacity can be restricted except for physical or mental disabilities.¹⁵ Another holds that the legislature cannot take notice of the *de facto* subjection of

¹³ 58 Ark. 407.

¹⁴ 115 Mo. 307.

¹⁵ 33 W. Va. 188.

one class of persons to another in making contracts of employment in certain industries, but must be governed by the theoretical jural equality.¹⁶

Not only, however, is natural law the fundamental assumption of our law and legal philosophy, but we must not forget that it is the theory of our bill of rights. Not unnaturally the courts have clung to it as being the orthodox theory of constitutions. But the fact that the framers held that theory by no means demonstrates that they intended to impose the theory on us for all time. They laid down principles, not rules, and rules can only be illustrations of principles so long as the facts and opinions remain what they were at the time when the rules were announced. Forgetfulness of this latter fact and an intense zeal for natural rights theory has led to a desire to extend this freedom as far as possible and to limit as much as possible whatever would tend to interfere with this, such as the number and kinds of incapacities which would justify a restraint of this liberty. The decisions of the courts plainly reveal this. They agree that the term "liberty" is broader than Coke's use of it, that the fact that Coke confined it to freedom of physical motion and locomotion does not exclude a broader interpretation today. Yet the same courts that recognize that liberty must include more today than it did as used in Coke's *Second Institute*, lay it down that the incapacities are to remain what they were at the common law, that new incapacities of fact, arising out of present industrial situations, may not be recognized by legislation. Restraints upon that freedom must find some justification in the existence of like limitations recognized at the old common law.

This appears perhaps no more clearly than in the efforts of the courts to reconcile the existence of usury laws with their notion of liberty of contract. As was said in 113 Pa. St. 427, "The right to regulate the rate of interest existed at the time the constitution was adopted, and cannot, therefore, be considered either an abridgment or restraint upon the rights of the citizen, guaranteed by the constitution. The power to pass usury laws exists by immemorial usage; but such is not the case with such acts as we are considering." That narrow assumptions underlie conceptions of contractual capacities also receives exemplification in connection with judicial discussions of usury laws. For instance in *Frorer v. People*,¹⁷ the court said, "Usury laws proceed upon the theory that the lender and the borrower of money do not occupy toward each other the same relations of equality that parties do in contracting with each other in regard

¹⁶ 61 Kas. 140.

¹⁷ 141 Ill. 171.

to the loan or sale of other kinds of property, and that the borrower's necessities deprive him of freedom in contracting and place him at the mercy of the lender, and such laws may be found on the statute books of all civilized nations of the world, both ancient and modern." It does not even seem to have occurred to Justice Scholfield that the necessities of the miner or factory employee might impair his freedom of contract as well. And instances might be multiplied, showing the purely individualistic character of all natural law theories, and the legal decisions based upon them.

345. Contractual Rights—Legal and Real¹⁸

BY THORSTEIN VEBLIN

The movement of opinion on natural-rights grounds converged to an insistence on the system of natural liberty, so-called. But this insistence on natural liberty did not contemplate the abrogation of all conventional prescription. "The simple and obvious system of natural liberty" meant freedom from restraint on any other prescriptive ground than that afforded by the rights of ownership. In its economic bearing the system of natural liberty meant a system of free pecuniary contract. "Liberty does not mean license"; which in economic terms would be transcribed, "The natural freedom of the individual must not traverse the prescriptive rights of property." Property rights being included among natural rights, they had the indefeasibility which attaches to natural rights. Natural liberty prescribes freedom to buy and sell, limited only by the equal freedom of others to buy and sell; with the obvious corollary that there must be no interference with others' buying and selling, except by means of buying and selling.

Presently, when occasion arose in America, the metaphysics of natural liberty was embodied in set form in constitutional enactments. It is, therefore, involved in a more authentic form and with more incisive force in the legal structure of this community than in that of any other. Freedom of contract is the fundamental tenet of the legal creed, so to speak, inviolable and inalienable; and within the province of law and equity no one has competence to penetrate behind this first premise or to question the merits of the natural-rights metaphysics on which it rests. The only principle which may contest its primacy in civil matters is the vague "general welfare" clause, and even this can effectively contest its claims only under exceptional circumstances. Under the application of any general

¹⁸Adapted from *The Theory of Business Enterprise*, pp. 271-78. Copyright by Charles Scribner's Sons, 1904.

welfare clause the presumption is, and always must be, that the principle of free contract be left intact so far as the circumstances will permit. The citizen may not be deprived of life, liberty, or property without due process of law, and the due process proceeds on the premise that property rights are inviolable. In its bearing upon economic relations between individuals this comes to mean, in effect, not only that one individual or group of individuals may not legally bring any other than pecuniary pressure to bear upon another individual or group, but also that pecuniary pressure cannot be barred.

Now, through gradual change of the economic conditions, this conventional principle of unmitigated and inalienable freedom of contract began to grow obsolete from the moment when it was fairly installed; obsolescent, of course, not in point of law, but in point of fact. The machine process has invaded the field. The standardization and the constraint of the system of machine industry differs from what went before it in that it has no conventional recognition, no metaphysical authentication. The machine process has not itself become a legal fact. Therefore it neither can or need be taken account of by the legal mind. It does not exist *de jure* but *de facto*.

The "natural," conventional freedom of contract is sacred and inviolable. The *de facto* freedom of choice is a matter about which the law and the courts are not competent to enquire. By force of the concatenation of industrial processes and the dependence of men's comforts or subsistence upon the orderly working of these processes, the exercise of the rights of ownership in the interests of business may traverse the *de facto* necessities of a group or class; it may even traverse the needs of the community at large, for example, in the conceivable case of an advisedly instituted coal famine; but since the necessities or comforts of livelihood cannot be formulated in terms of the natural freedom of contract, they can, in the nature of the case, give rise to no cognizable grievance and find no legal remedy.

D. THE COURTS AND LABOR

346. Limitation of the Working-Day

a) *The Supremacy of Freedom of Contract*¹⁹

Does the provision in question restrict the right to contract? The words "no female shall be employed" import action on the part of two persons. There must be a person who does the act of em-

¹⁹*Ritchie v. People*, 115 Ill. 98 (1893). This is an excerpt from the opinion of the state court declaring unconstitutional a law providing that "no female shall be employed in any factory or workshop more than eight hours in any one day, or forty-eight hours in any one week."

ploying and a person who consents to the act of being employed. The prohibition of the statute is twofold: first, that no manufacturer or proprietor of a workshop shall employ any female therein more than eight hours in one day; and, second, that no female shall consent to be so employed. It thus prohibits employer and employee from uniting their minds upon any longer service during one day than eight hours. They are prohibited, the one from contracting to employ, and the other from contracting to be employed, otherwise than as directed. Section 2 of Article 2 of the constitution of Illinois provides that "no person shall be deprived of life, liberty, or property without due process of law." The privilege of contracting is both a liberty and a property right. Liberty includes the right to acquire property, and that means the right to make and enforce contracts. The legislature has no right to deprive one class of persons of privileges allowed to other persons under like conditions. Women employed by manufacturers are forbidden to make contracts to labor longer than eight hours in a day, while women employed as saleswomen, bookkeepers, stenographers, or other occupations are at liberty to contract for as many hours of labor a day as they choose. The manner in which this section discriminates against one class of employers and employees, and in favor of all others, places it in opposition to the constitutional guarantees hereinbefore discussed, and so renders it invalid.

But aside from its partial and discriminating character, this enactment is a purely arbitrary restriction upon the fundamental rights of the citizen to control his or her time and facilities. It substitutes the judgment of the legislature for the judgment of the employer and employee in a matter about which they are competent to agree with each other. Where the legislature thus undertakes to impose an unreasonable and unnecessary burden upon any one citizen or class of citizens it transcends the authority intrusted to it by the constitution.

*b) Maternity and State Regulation*²⁰

That woman's physical structure and the performance of maternal functions place her at a disadvantage in the struggle for subsistence is obvious. By the abundant testimony of the medical fraternity continuance for a long time on her feet at work and repeating this from day to day tends to injurious effects upon the body; and as healthy mothers are essential to a vigorous offspring, the physical well-being of woman becomes an object of public interest, and care, in order to preserve the strength and vigor of the race.

²⁰*Müller v. Oregon*, 208 U.S. 412 (1907).

*c) Supremacy of the Police Power*²¹

It is enough for our decision if the legislation under review was passed in the exercise of an admitted power of government; and that it is not as complete as it might be, not as rigid in its prohibitions as it might be, gives perhaps evasion too much play, is lighter in its penalties than it might be, is no impeachment of its legality. This may be a blemish, giving opportunity for criticism and difference in characterization, but the constitutional validity of legislation cannot be determined by the degree of exactness of its provisions or remedies. New policies are usually tentative in their beginnings, advance in firmness as they advance in acceptance. They do not at a particular moment of time spring full-perfect in extent or means from legislative brain. Time may be necessary to fashion them to precedent customs and conditions and as they justify themselves or otherwise they pass from militancy to triumph or from question to repeal.

But passing general considerations and coming back to our immediate concern, which is the validity of the particular exertion of power in the Oregon law, our judgment is that it does not transcend constitutional limits.

The case is submitted by plaintiff in error upon the contention that the law is a wage law, not an hours-of-service law, and he rests his case on that contention. To that contention we address our decision and do not discuss or consider the broader contentions of counsel for the State that would justify the law even as a regulation of wages.

There is a contention made that the law, even regarded as regulating hours of service, is not either necessary or useful "for preservation of the health of employees in mills, factories, and manufacturing establishments." The record contains no facts to support the contention, and against it is the judgment of the legislature and the Supreme Court (of Oregon), which said, "In view of the well-known fact that the custom of our industries does not sanction a longer service than 10 hours per day, it cannot be held, as a matter of law, that the legislative requirement is unreasonable or arbitrary as to hours of labor. Statistics show that the average daily working time among workmen in different countries is, in Australia, 8 hours; in Great Britain, 9; in the United States, 9¼; in Denmark, 9¼;

²¹Adapted from the opinion of the United States Supreme Court in the case of *Bunting v. Oregon*, 243 U.S. 426, decided April 9, 1917. The opinion declared constitutional a statute of the state of Oregon providing that "no person shall be employed in any mill, factory, or manufacturing establishment in this state more than ten hours in any one day," except under particular circumstances.

in Norway, 10; Sweden, France, and Switzerland, 10½; Germany, 10¼; Belgium, Italy, and Austria, 11; and in Russia, 12 hours."

347. Reciprocal Nature of Employer's and Employee's Rights²²

1. The defendants acted within their right when they went out on a strike. Whether with good cause, or without any cause or reason, they had the right to quit work, and their reasons for quitting work were reasons they need not give to anyone. And that they all went out in a body, by agreement or preconcerted arrangement, does not militate against them or affect this case in any way.

2. Such rights are reciprocal, and the company had the right to discharge any or all of the defendants, with or without cause, and it cannot be inquired into as to what the cause was.

3. It is immaterial whether the defendants are not now in the service of the company because of a strike or a lockout.

4. The defendants have the right to combine and work together in whatever way they believe will increase their earnings, shorten their hours, lessen their labor, or better their condition, and it is for them, and them only, to say whether they will work by the day or by piecework. All such is part of their liberty. And they can so conclude as individuals, or as organizations, or as unions.

5. And the right is also reciprocal. The railroad company has the right to have its work done by the premium or piece system, without molestation or interference by defendants or others. This is liberty for the company, and the company alone has the right to determine as to the matter.

6. When the defendants went on strike, or when put out on a lockout, their relations with the company were at an end: they were no longer employees of the company; and the places they once occupied in the shops were no longer their places, and never can be again, excepting by mutual agreement between the defendants and the company.

7. No one of the defendants can be compelled by any law, or by any order of any court, to work again for the company on any terms or under any conditions.

8. The company cannot be compelled to employ again any of the defendants, or any other persons, by any law, or by any order of any court, or on any terms, or on any conditions.

9. Each, all, and every of the foregoing matters between the company and the defendants are precisely the same, whether applied to the company or to the defendants.

²²Adapted from the opinion of the court in *Union Pacific Railway Co. v. Ruel*, 120 Fed. 102 (1903).

10. The company has the right to employ others to take the places once filled by defendants; and in employing others the defendants are not to be consulted, and it is of no lawful concern to them, and they can make no lawful complaint by reason thereof. And it makes no difference whether such new employees are citizens of Omaha or of some other city or state.

11. Defendants have the right to argue or discuss with the new employees the question whether the new employees should work for the company. They have the right to persuade them if they can. But in presenting the matter, they have no right to use force or violence. They have no right to terrorize or intimidate the new employees. The new employees have the right to come and go as they please, without fear or molestation, and without being compelled to discuss this or any other question, and without being guarded or picketed, and persistent and continued and objectionable persuasion by numbers is of itself intimidating, and not allowable.

12. Picketing in proximity to the shops or elsewhere on the streets of the city, if in fact it annoys or intimidates the new employees, is not allowable. The streets are for public use, and the new employee has the same right, neither more nor less, to go back and forth, freely and without molestation and without being harassed by so-called arguments, and without being picketed, as has a defendant or other person. In short, the rights of all parties are one and the same.

348. Unionism and the Conditions of Employment²²

Included in the right of personal liberty and the right of private property—partaking of the nature of each—is the right to make contracts for the acquisition of property. Chief among such contracts is that of personal employment, by which labor and other services are exchanged for money or other forms of property. If this right be struck down or arbitrarily interfered with, there is substantial impairment of liberty in the long-established constitutional sense. The right is as essential to the laborer as to the capitalist, to the poor as to the rich; for the vast majority of persons have no other honest way to begin to acquire property, save by working for money.

²²Adapted from the opinion of the court in the case of *Coppage v. State of Kansas*, 236 U.S. 1 (1915). A workman was discharged for refusing to sever his connection with a labor organization. A law of the state of Kansas, where the suit originated, forbade employers requiring of employees an agreement not to become or remain members of labor organizations as a condition of securing or retaining employment. The Kansas statute, involved in this case, was declared unconstitutional.

An interference with this liberty so serious as that now under consideration, and so disturbing of equality of right, must be deemed to be arbitrary, unless it be supportable as a reasonable exercise of the police power of the state. But, notwithstanding the strong general presumption in favor of the validity of state laws, we do not think the statute in question, as construed and applied in this case, can be sustained as a legitimate exercise of that power.

The act, as the construction given to it by the state court shows, is intended to deprive employers of a part of their liberty of contract, to the corresponding advantage of the employed and the unbuilding of the labor organizations. But no attempt is made, or could reasonably be made, to sustain the purpose to strengthen these voluntary organizations any more than other voluntary associations of persons, as a legitimate object for the exercise of the police power. They are not public institutions charged by law with public or governmental duties, such as would render the maintenance of their membership a matter of direct concern to the general welfare. If they were, a different question would be presented.

As to the interest of the employed, it is said by the Kansas Supreme Court to be a matter of common knowledge that "Employees, as a rule, are not financially able to be as independent in making contracts for the sale of their labor as are employers in making a contract of purchase thereof." No doubt, wherever the right of private property exists, there must and will be inequalities of fortune; and thus it naturally happens that parties negotiating about a contract are not equally unhampered by circumstances. This applies to all contracts and not merely to that between employer and employee. Indeed a little reflection will show that wherever the right of private property and the right of free contract coexist, each party when contracting is inevitably more or less influenced by the question whether he has much property, or little, or none; for the contract is made to the very end that each may gain something that he needs or desires more urgently than that which he proposes to give in exchange. And, since it is self-evident that unless all things are held in common, some persons must have more property than others, it is from the nature of things impossible to uphold freedom of contract and the right of private property without at the same time recognizing as legitimate those inequalities of fortune that are the necessary result of the exercise of those rights.

It is said in the opinion of the state court that membership in a labor organization does not necessarily affect a man's duty to his employer; that the employer has no right by virtue of the relation,

"to dominate the life nor to interfere with the liberty of the employee in matters that do not lessen or deteriorate the service," and that "the statute implies that labor unions are lawful and not inimical to the rights of employers." The same view is presented in the brief of counsel for the state, where it is said that membership in a labor organization is the "personal and private affair" of the employee. To this line of argument it is sufficient to say that it cannot be judicially declared that membership in such an organization has no relation to a member's duty to his employer; and therefore, if freedom of contract is to be preserved, the employer must be left at liberty to decide for himself whether such membership by his employee is consistent with the satisfactory performance of the duties of the employment.

Of course we do not intend to say, nor to intimate, anything inconsistent with the right of individuals to join labor unions, nor do we question the legitimacy of such organizations so long as they conform to the laws of the land as others are required to do. Conceding the full right of the individual to join the union, he has no inherent right to do this and still remain in the employ of one who is unwilling to employ a union man, any more than the same individual has the right to join the union without the consent of the organization. Can it be doubted that a labor organization—a voluntary association of workingmen—has the inherent and constitutional right to deny membership to any man who will not agree that during such membership he will not accept or retain employment in company with non-union men? Or that a union man has the constitutional right to decline proffered employment unless the employer will agree not to employ any non-union man?

And can there be one rule of liberty for the labor organization and its members, and a different and more restrictive rule for employers? We think not; and since the relation of employer and employee is a voluntary relation, as clearly as it is between the members of a labor organization, the employer has the same inherent right to prescribe the terms upon which he will consent to the relationship, and to have them fairly understood and expressed in advance.

When a man is called upon to agree not to become or remain a member of the union while working for a particular employer, he is in effect only asked to deal openly and frankly with his employer, so as not to retain the employment upon terms to which the latter is not willing to agree. And the liberty of making contracts does not include a liberty to procure employment from an unwilling employer, or without a fair understanding. Nor may the employer

be foreclosed by legislation from exercising the same freedom of choice that is the right of the employee.

To ask a man to agree, in advance, to refrain from affiliation with the union while retaining a certain position of employment, is not to ask him to give up any part of his constitutional freedom. He is free to decline the employment on those terms, just as the employer may decline to offer employment on any other; for "it takes two to make a bargain." Having accepted employment on those terms, the man is still free to join the union when the period of employment expires; or, if employed at will, then any time upon simply quitting the employment. And if bound by his own agreement to refrain from joining during a stated period of employment, he is in no different situation from that which is necessarily incident to term contracts in general. For constitutional freedom of contract does not mean that a party is to be as free after making a contract as before; he is not free to break it without accountability. Freedom of contract, from the very nature of the thing, can be enjoyed only by being exercised; and each particular exercise of it involves making an engagement which, if fulfilled, prevents for the time any inconsistent course of conduct.

349. The Legality of Unionizing a Shop²⁴

BY LOUIS D. BRANDEIS

Unionizing a shop does not mean inducing employees to become members of the union. It means inducing the employer to enter into a collective agreement with the union governing the relations of the employer to the employees. Unionizing implies, therefore, at least *formal* consent of the employer. But plaintiff and defendants insisted upon exercising the right to secure contracts for a closed shop. The plaintiff sought to secure the *closed non-union* shop through individual agreements with employees. The defendants sought to secure the *closed union shop* through a collective agreement with the union. Since collective bargaining is legal, the fact that the workmen's agreement is made not by individuals directly with the employer, but by the employees with the union and by it, on their

²⁴From a dissenting opinion in the case of *Hitchman Coal and Coke Co. v. Mitchell*, 245 U.S. 229. In this Mr. Brandeis was joined by Mr. Holmes and Mr. Clarke. The issues in this case are somewhat involved. But the main issue is clear. The company had an agreement with its men not to join a union while in its employ. The suit is brought by the company to secure an injunction restraining Mitchell and other officers of the United Mine Workers of America from soliciting its employees to join that organization. In a decision made on December 10, 1917, the United States Supreme Court confirmed an injunction to this effect granted by a lower court.

behalf, with the employer, is of no significance in this connection. The end being *lawful*, defendant's efforts to unionize the mine can be illegal only if the methods or means pursued were unlawful.

It is urged that a union agreement curtails the liberty of the operator. Every agreement curtails the liberty of those who enter it. The test of legality is not whether an agreement curtails liberty, but whether the parties have agreed upon something which the law prohibits or declares otherwise to be inconsistent with the public welfare. The operator by the union agreement binds himself (1) to employ only members of the union; (2) to negotiate with union officers, instead of with employees individually, the scale of wages and the hours of work; (3) to treat with the duly constituted representatives of the union to settle disputes concerning the discharge of men and other controversies arising out of employment. These are the chief features of a unionizing by which the employer's liberty is curtailed. Each of them is legal. To obtain any of them or all of them men may lawfully strive and even strike. And, if the union may legally strike to obtain each of the things for which the agreement provided, why may it not strike or use equivalent economic pressure to secure an agreement to provide them?

It is also urged that defendants are seeking to "coerce" plaintiff to "unionize" its mine. But coercion, in a legal sense, is not exerted when a union merely endeavors to induce employees to join a union with the intention thereafter to order a strike unless the employer consents to unionize his shop. Such pressure is not coercion in a legal sense. The employer is free either to accept the agreement or the disadvantage. Indeed, the plaintiff's whole case is rested upon agreements secured under similar pressure of economic necessity or disadvantage. If it is coercion to threaten to strike unless plaintiff consents to a closed union shop, it is coercion also to threaten not to give one employment unless the applicant will consent to a closed non-union shop. The employer may sign the union agreement for fear that *labor* may not be otherwise obtainable; the workman may sign the individual agreement for fear that *employment* may not be otherwise obtainable. But such fear does not imply coercion in a legal sense.

In other words, an employer, in order to effectuate the closing of his shop to *union* labor, may exact an agreement to that effect from his employees. The agreement itself being a lawful one, the employer may withhold from the men an economic need—employment—until they assent to make it. Likewise an agreement closing a shop to *non-union* labor being lawful, the union may withhold from an employer an economic need—labor—until he assents to make it.

In a legal sense an agreement entered into, under such circumstances, is voluntarily entered into; and as the agreement is in itself legal no reason appears why the general rule that a legal end may be pursued by legal means should not be applied; or, putting it in other words, there is nothing in the character of the agreement which should make *unlawful* means used to attain it, which in other connections are recognized as *lawful*.

350. The Legal Issue in the Minimum Wage²⁵

BY THOMAS REED POWELL

The theory of the minimum wage is that there is a public interest in having those who give their whole strength to an employer receive enough from that employer to maintain that strength. It is that there is a public interest in having an industry support itself instead of relying on outside subsidies. The opponents do not say that there is no such public interest. They say in effect that the promotion of such public interest by minimum-wage legislation will cause loss to individual employees. So it may. But individual loss results from the promotion of most if not of all public interests. It results from war, from taxation, from discharges in bankruptcy, from exercises of the police power. The question is whether the public interest is sufficient to justify the individual loss. The individuals who suffer loss are a part of the public. If they do not share in the public gain which accompanies their individual loss, they share in other public gains which depend for their attainment on the principle that they shall not be defeated by fear of attendant individual loss.

The only specific public interest to which the opponent of the law adverts is the claim that "the statutory minimum wage is a protection of the morals of women workers." "This sensational claim," he says, "has been practically abandoned. Of course, if insufficient wages during employment produce immorality, then lack of employment would tend to produce it all the more." Yes, if all women now underpaid shall as a result of the minimum-wage statute lose employment entirely. But if the greater part of the women now receiving wages less than the cost of subsistence are raised to a standard which will support them, the number of those who must rely on outside subsidies will be greatly diminished. In so far then as immorality is fostered by the necessity of adding to wages some other source of income, the number of those who are in this predicament will be greatly diminished by the minimum wage.

²⁵Adapted from "The Constitutional Issue in Minimum-Wage Legislation," *The Minnesota Law Review* (1917), II, 18-23.

What is true of the relation of the minimum wage to morality is true also of the relation of the minimum wage to ill-health due to insufficient nourishment and improper living conditions. The purpose and result of minimum-wage legislation is to insure that those who give a day's work receive a day's support in return. The purpose is a public purpose, because the evils which result from poverty and weakness and premature death are public evils. They are the public evils which all our health laws seek to avert. They are the public evils which public charity seeks to avert. Men are compelled to pay money in taxes to prevent these evils. They must pay to provide food and lodging and medical care for those who stand in no relation to them except that of fellow-citizens. There can be no dispute that the end sought by minimum-wage legislation is a legitimate public end. The only question is the appropriateness of the means.

The objection of the employer is in substance that he is not his brother's keeper. The statute says that he shall be his employee's keeper, that he shall not have his employee kept for him by others. It leaves him free to decide whether any person shall be his employee. He has a freedom which is not accorded to those who are taxed to support others who do not receive from private sources enough to support themselves. But if the employer chooses to take the daily labor of a woman, he is compelled to pay that woman enough to make that labor possible. He pays only the cost of that from which he chooses to reap the benefits. He pays what the common law makes men pay in judgments in quasi-contract. The obligation which the law imposes on him in respect to wages is similar to that which it imposes on him in respect to injuries arising in the course of employment. Under our modern workmen's compensation statutes the employer pays for injuries to employees, not because his negligence has caused the injuries, but because the injuries were incident to the employment and the employer chose to make the contract that gave rise to the employment. Injuries are only a possible or likely incident of the employment. The support of the worker is a necessary and certain incident of the employment. It is a condition without which the employment cannot exist. The employer must pay for the fuel for his furnaces, as the farmer pays for fodder and shelter for his kine. But when a statute commands an employer to pay enough for clothing, food and shelter to those whose labor he uses in his factory, it is alleged to be a violation of the principles of our government. Yet by common law and by many approved statutes those who accept benefits are made to bear the attendant burdens.

The only employees who can complain of minimum-wage legislation are those whom the employer rejects. It must be recognized that a serious defect in minimum-wage legislation is the absence of specific provision for caring for the unemployables. But a statute is not invalid because it takes only the first step in dealing with a situation and leaves other steps to be adopted as experience shall advise. "Constitutional law, like other mortal contrivances, must take some chances," Mr. Holmes has reminded us. Minimum-wage statutes will tend to sort out the unemployables. They will remedy the evils due to the fact that industry is not now maintaining the employees whom it requires and must continue to require. Those whom industry does not require must be subjected to special treatment later.

This is not, however, all that may be said in answer to the objection of the employee who loses her chance to work because her employer will not retain her at the wage prescribed by the statute. She must be regarded not as an isolated individual but as a member of a class. The class of women workers as a whole will derive such benefits from the raising of their wages to the cost of subsistence, that the loss to the unemployables is overbalanced by the gain to those whom industry cannot dispense with. As a compulsory vaccination statute cannot be defeated because some will suffer from its enforcement, so a statute raising wages should not be defeated because some laborers will suffer from its enforcement. The class to which they belong will gain. Therefore there is no loss to the class to be weighed against the general public benefits which the statute will promote.

The immateriality of loss to individual employees from the operation of minimum-wage legislation would seem to be sufficiently established by the instances already given in which the courts have sustained legislation establishing standards of fitness, of rates of interest, and of pay. Such loss is regrettable, but it does not make the statute unconstitutional. It is, however, to be hoped that the states which adopt minimum-wage legislation will soon add provisions for dealing with the needs of the unemployed and the unemployable. Such needs are of course provided for in a measure by our systems of public charity and by institutions for the care and training of defectives. To the extent to which public funds are released by the effect of minimum-wage statutes on those who remain in employment, the care of the unemployed will involve no increase of the tax burden. And to the extent to which the statutes operate to sift the defectives from the mass of workers, substantial aid will be given to the movement for mental hygiene which has already won recognition as an essential governmental function.

The economic wisdom or folly of minimum-wage legislation can of course be better demonstrated by experience than by theoretical argument. The judicial determination of such questions should not be based upon fantastic or at best highly speculative predictions of dire results. When the results are known, their appraisal will be in large part dependent upon views of social policy. Under the development of our constitutional system such question of policy are passed upon by the courts. The considerations which influence the judicial decisions of such questions are not always susceptible of easy determination. It is apparent, however, that the courts are rapidly abandoning the general notions of individualism and of *laissez faire* which underlie the arguments of opponents of minimum-wage legislation. Experience is demonstrating the superior wisdom of legislative prescription of social standards over the anarchaic chaos of unfettered individual action.

Legislation compelling employers to pay a wage equal to the cost of subsistence differs in detail from other legislation already sustained as constitutional. But the public ends to be gained by the statutory minimum wage are akin to, if not identical with, the public ends secured by legislation which has already successfully run the gauntlet of judicial consideration. The private detriment which minimum-wage statutes may cause is less serious and more easily justified than are the burdens imposed by statutes which have long been part of our system of legal legislation. A judicial declaration that minimum-wage legislation is a deprivation of property without due process of law would be inconsistent with the necessary implication of the group of decisions on similar statutes and with the social philosophy which those decisions exemplify.

XV

SOCIAL REFORM AND TAXATION

It is not surprising that with the passing of *laissez-faire* and the assumption of a larger area of control by the state, there should arise fresh interest in the problems of taxation. A society using means of control as varied as ours could not overlook so facile an instrument. Nor could it long ignore the vital fact that its new social responsibilities require increased expenditures, and that the field of taxation must be newly explored to discover sources of additional revenue.

More than one generation of economists has fought over the question of whether taxation should be used as an instrument of social control. The advocates of "taxes for revenue only" have usually seriously routed their opponents, chiefly because of the nicety with which their fiscal theories have harmonized with general intellectual theories established upon an individualistic basis. But the advocates of taxes as means of control have quite as seriously triumphed over their opponents in determining usual practices. The small town vindicates its belief in mercantilism by taxing the out-of-town peddler; tax assessors very conveniently under-assess, or fail to assess, the property of industries which their districts are anxious to "encourage"; the state attempts to shape its tax laws in such a way as to invite investment from other states; public sentiment demands a high excise duty on intoxicants as a means of decreasing their consumption; and the nation legislates "prosperity" by rapid and skillful manipulation of customs duties. There is nothing novel in even the advocacy of the single tax as a means of correcting distribution, encouraging production, and eliminating social evils. And when we remember that a tax on commodities will decrease consumption, and are confronted by such an instance as a tax on distilleries causing a rapid development of technique, it is evident that we could not escape using this vehicle in programs of social control, even if we would.

But whether or not the system of taxation is to be used to effect changes in social life and institutions, a rational use of the machinery of taxation must be based upon adequate knowledge. This includes, first of all, a clear idea of the classes or properties which we wish to bear the assessed taxes, and why we wish to put the burdens upon them. We must, in short, have principles or "canons" of taxation. In the second place, we must know the machinery of taxation well enough to know just how to reach the desired objects, assuming that they are not beyond reach. Taxes, you know, have a disagreeable habit of getting "shifted"; and quite frequently their "incidence" falls upon those whom we had no intention of burdening. If we are taking thought for the morrow, and are concerned with increased efficiency of production and "equity" in distribution, we must pay particular attention to the incidence of taxes on the factors of production. In the third place, the consequences of taxation are not confined to shifting; taxes produce other effects than those evidenced by price changes. Such social consequences as business failures, greater concentration in industry, changes in technique, and relocalization of industries must be as accurately anticipated as possible.

Today our concern is not so much with the use of taxation as a means of social control as of adjusting the system to the present industrial situation and of making it yield larger and larger revenues. The first of these is requiring an abandonment of the general property tax. This time-honored fiscal institution was admirably adapted to rural and handicraft communities; but it seems unable to reconcile itself with the varied forms of property which

Modern Industrialism has produced. The older methods of assessment are also inadequate. Small industrial units, organized as individual businesses, could justly be assessed by county or local officials. The property of huge corporations, lying in many counties or states, and much more valuable as entities than the aggregate of material properties would indicate, demands a more centralized system of assessment. It is evident, too, that to treat individuals alike is not to give them equal treatment. The old principle of assessment at a uniform rate, found in so many of our state constitutions, is an inheritance from the eighteenth century. The system, in short, must be made to conform to the newer concepts in which modern industrial life is expressed.

But of greater importance is the increasing demand for revenue. We are being called upon to extend our educational system; to furnish to the people opportunities for recreation, amusement, and cultural development; to lighten the burden of economic insecurity; to perfect an adequate mechanism of social control. These demands are constantly becoming more imperative. To meet them our scheme of taxes must be reconstructed. Customs duties and excise taxes are likely to be retained because of the ease of their collection. The income tax, so closely in harmony with modern concepts of pecuniary property, is likely to grow in favor. The corporations are by no means immune from taxation with increasing severity. Increased volume of business, operation in "a stage of increasing returns," and lack of imperative demand for the lowering of prices together create an ideal condition for an increase in such taxes. But perhaps greater and greater dependence will be put in the inheritance tax. The yield from both this and from the income tax is likely to be greatly increased through "graduation."

The use of such taxes, in addition to raising revenue, will involve profound social changes. Inheritance and property will become institutions quite different from those we have known. Wealth will be distributed in quite a different way. The forces making for social development will be different in content and in arrangement. Primarily designed as revenue-producers, these taxes will be none the less effective instruments in transforming our institutions.

A. THE THEORY OF PUBLIC FINANCE

351. Expenditures and Social Organization¹

BY HENRY CARTER ADAMS

The aggregate of public expenditures depends, among other things, upon the theory of social relations which a people has adopted, and the degree of strictness with which that theory is followed in practice. This theory may be looked for in the accepted philosophy of the respective rights and duties of government and individuals, or, what amounts to the same thing, in the attitude of mind which the public instinctively assumes when certain social or industrial problems are under consideration.

The problems of the class referred to are such as rely for their solution upon the extension, in some of its various forms, of the principle of co-operation; but a great deal depends, so far as the public expenditures are concerned, upon the character of that co-operation. Is the collective activity demanded governmental or is

¹Adapted from *The Science of Finance*, pp. 46-48. Copyright by Henry Holt & Co., 1898.

it private? Is the co-operation desired to be secured by coercion or through voluntary association? One cannot emphasize too strongly the contrast between these two forms of social activity in their influence upon the aggregate of public expenditures.

It is exceedingly difficult to express in a few words the characteristic features of the social theories which, under various forms and with many and constant modifications, give color to the political and social fabric of various states. These differences may, however, be suggested by observing that the one theory is a modification of the view of the state assumed by Roman law, and exemplified in a general way by most of the Continental peoples; while the other is a development of the Teutonic and Saxon ideas of personal liberty; and shows its most natural unfolding among peoples in English historical descent. The former makes the state the center of all collective life, and defines the rights of individuals in terms of national importance; the latter places the individual at the center of thought, and conceives of the state as one of several means to individual attainment and development. Under the influence of that philosophy which subordinates the individual to the state it is natural for those intrusted with the administration of the government to regard all questions as properly adjusted when the interests of the state are conserved. Especially will this be true if to such a theory of society there be added the influence of the monarchial form of administration. It is logical, for example, that they who represent monarchial governments should accept the necessities of the state as the true measure of legitimate expenditures, without having very much regard for the concurrent needs of individuals. It is easy, also, under such a social theory, for the spirit of paternalism to show itself in many of the items of a budget, and for the thought that the state is an industrial corporation as well as a political organization to swell the proportion of public expenditures.

The view of social relations which underlies English common law, on the other hand, works upon national expenditure in quite another manner, at least so far as those appropriations are concerned which minister to pride and foster bureaucracy, or which are related to the exercise of paternal functions. According to this theory a condition of liberty is conceived to be a heritage of the individual. The state is not regarded as an organism in the sense that it possesses soul, conscience, and sensibilities of its own; it is rather a form of association, and differs mainly from ordinary associations in the character of the service it has to perform, and in the fact that these services are of such a sort as require the state to be the

depository of coercive power. Public concessions are judged from the point of view of the interest of the individual, and are approved or disapproved according as they bear upon his prospects. The result of this philosophy of social relations among peoples who practice self-government is to insist that the government prove its case beyond the possibility of a doubt whenever it demands increased expenditures for approved services or the approval of expenditures for an unusual service. Greater reliance is placed upon voluntary association for the attainment of collective interests than upon coercive association. And this results inevitably in charging the cost of many lines of service to the income account of private corporations rather than to that of the state. In this manner, therefore, public expenditures are curtailed by virtue of individualistic philosophy applied to governmental affairs.

352. The Individualistic Theory of Taxation²

BY WILLIAM KENNEDY

The social attitude of the eighteenth century was not based upon one political theory, but it was nevertheless based predominantly on one political theory. This was the "freeholder," non-functional conception of society. Men entered into society in order to secure themselves in the rights which individually belonged to them; the state existed to provide this security; the rights to be secured were theoretically "natural" rights, in practice conceived as the more general and characteristic rights guaranteed by English law; and all men having rights to be protected which, though different in extent, were essentially similar in kind, every man was a free man and a citizen. The basis of political obligation was that the state was necessary to, and in effect did, protect men's rights. Men were born not to functions or services, but to rights and enjoyments. They were born freeholders or free merchant adventurers.

The more abstract political speculation of the century illustrates very clearly the predominance of this conception of society. On the one hand it was put forward in strict Lockian form by Blackstone. In his *Commentaries* he explains that the individual possessed some "absolute" rights—chiefly those of personal security, personal liberty, and private property—which appertained to him merely as an individual, independently of his membership in society; but that no absolute duties pertained to the individual (at least such as law could explain and enforce)—all duties were relative only, and that "the principal aim of society is to protect individuals in the enjoy-

²Adapted from *English Taxation, 1640-1799: An Essay on Policy and Opinion*, pp. 180 ff. Copyright by G. Bell & Sons, 1913.

ment of those absolute rights which were vested in them by the immutable laws of nature." Blackstone's essential justification for the existence of a propertied aristocracy, had he thought it necessary to discuss such a question, would therefore have been that they had natural or absolute rights to property like other people, and not that they governed England or did anything in particular for anyone or anything but themselves.

On the other hand, the freeholder conception was equally involved in the speculation of those who, prior to Bentham, attempted to add to Locke's theory a vague utilitarian explanation of rights, such as that the right of private property is beneficial in society. This was the position of the philosophers Hutcheson and Hume, the economists Adam Smith and Sir James Steuart, and the whig lawyer Sir James Mackintosh. These thinkers had no idea of a connection between rights and functions. Adam Smith, for instance, discussed the causes of the subordination of the classes in society, and all he saw was, first, that birth and fortune seemed to be the two circumstances which principally set one man over another; and, second, that the reason for subordination seemed to lie in the need for the defense of great private properties. The sixteenth-century theorist would have said that subordination and great properties existed so that the subordinate classes might be well governed.

Finally the freeholder conception dominated the feeling of those who were led, by the implications which the French Revolution emphasized in Lockian ideas, to repudiate the doctrine of natural rights, and with Burke to canonize the actual property and other rights which tradition had sanctified in England. Even Burke, in spite of his splendid inconsistencies, did not succeed in any direct way in embodying ideas of function in his defense of the English social order. He made men feel the complex and organic and traditional character of a real society, but he advanced very little in comprehension of the structure of its organism.

Now it follows directly on this conception of society as held together by the protection of individual rights, that all men, rich and poor, should pay taxes, that is, share in the cost of the protecting organization. The logical alternative, as Burke said, was loss of citizenship. This was the doctrine which underlay even the sentiment in favor of exempting the poor from taxation. This view was not a functional one which demanded public service of the individual.

No political theory could have had such widespread influence upon public opinion as the freeholder theory had in the eighteenth century, except by representing some real and important aspect of the state of contemporary society. And the freeholder theory did

represent such an aspect—namely, the fact that the rights which the governing class in particular possessed were rights attaching not to an office but to ownership of property. They received incomes whether or not they performed services in return. But the theory also misrepresented the state of society, for it treated this legal meaning of the right of property as its whole significance. The theory ignored the fact that the governing class did perform services in society, and that it was not composed merely of “idle rich consumers.”

This other aspect of English society was represented by the second but much less important political theory which influenced the social attitude of the eighteenth century. It was the theory of class duty and of the mutual dependence of classes, and was expressed in general terms by all kinds of men, but was voiced chiefly by the Church, which at all times insisted upon a functional theory which treated rights not as their own justification but as the conditions of duties.

353. Canons of Taxation^a

BY ADAM SMITH

It is necessary to premise the four following maxims with regard to taxes in general:

I. The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maximum consists, what is called, the equality or inequality of taxation.

II. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not nearly so great an evil as a very small degree of uncertainty.

III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or when

^aAdapted from *The Wealth of Nations* (1776), Book V, chap. ii, Part II.

he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty too, either to buy, or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.

IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

354. The Burden of Taxation⁴

BY S. J. CHAPMAN

As regards taxation, the first thing to settle is the principle according to which its burden should be distributed. It is commonly agreed at the present time that taxation should be designed so as to cause *equal proportional sacrifice among the taxpayers*. When there is equality of proportional sacrifice, people are left in the same relative positions after being taxed as before.

This principle has been called the *principle of equality of sacrifice*. It is better, however, to call it the *principle of proportional sacrifice*, because equality of sacrifice might be interpreted to mean equality of absolute sacrifice and not of proportional sacrifice. If the utility of income were constant and the same for all—as it is not—and a man with £1,000 a year and a man with £500 a year contributed £10 a year each in taxes, equal amounts of sacrifice would be entailed, but the man with £500 would be involved in a greater proportional sacrifice. The proportional sacrifice of the man with £500 a year would be the same as that made by a man with £1,000 a year who paid £10 in taxes, if the former paid not £10 but £5, on the assumptions made as regards the utility of income.

It is repeatedly affirmed that the right theory of taxation is the *faculty theory*. Generally speaking, the faculty theory lays it down that a person should pay taxes in proportion to his power to do so. Whether the faculty theory is the correct theory or not, according to the consensus of expert opinion, depends upon the exact meaning that we read into it. Let us take an example from a primitive community. The state needs a particular piece of work to be done. Then, some say, for the whole community to turn out to do the work, and for each person to work according to his strength would be for each to contribute to the service of the state according to

⁴Adapted from *Outlines of Political Economy*, pp. 376-79. Copyright by Longmans, Green & Co., 1911.

faculty. But would this be the equitable thing? If all worked ten days, the man of great capacity would be doing absolutely more for the state than the man of little capacity. But the latter would be making a greater proportional sacrifice than the former. He would be doing so because the man of great capacity, who could make much in a year, in yielding up ten days of his time would be surrendering comparative superfluities, whereas the man of little capacity in yielding up ten days of his time would be surrendering comparative necessities. The force of this argument will be more fully appreciated when it is put in terms of money. Equal sacrifices of time are equivalent to proportional sacrifices of money income, but proportional sacrifices of money income are not equivalent to proportional sacrifices of real income, that is of the utility of income, which is the thing that ultimately counts. However, the faculty theory may be interpreted in such a way as to be made identical with the theory of proportional sacrifice.

The so-called *ability theory* is either the *faculty theory* in the form first analyzed above, or the theory of proportional sacrifice. If we mean by any theory that proportional sacrifice alone is equitable, it is best to call it the "theory of proportional sacrifice" so as to prevent any misunderstanding.

Taxation which embodies the principle of proportional sacrifice must be *progressive*. By the principle of progression is meant in general that the higher the *clear net income* of a person the greater must be the *rate* at which he is taxed. The need of progression is derived from the known facts as regards the variation of the utility of income with its amount. In view of the rate at which the marginal utility of income falls, it is practically certain that taxation proportional to income exacts a greater proportional sacrifice from the poorer of any two persons, other things being equal.

The great obstructions in the way of applying the principle of progression with scientific accuracy are (1) that utility varies with income differently for different persons, and even for the same person at different times, and (2) that the variations of utility with income cannot be accurately measured.

B. NATURE OF WAR FINANCE

355. Conscription of Income⁵

BY O. W. W. SPRAGUE

Conscription of men should logically and equitably be accompanied by something in the nature of conscription of current income

⁵Adapted from "The Conscription of Income," *Economic Journal* (March, 1917), pp. 5-6.

above that which is absolutely necessary. The obligation that each citizen furnish the state in time of war a large portion of his current income manifestly would impose no more oppressive burden than the obligation of military service. To be sure, the pressing necessity which leads to compulsory service is absent, since it is possible to finance a war by means of borrowing. Yet as a permanent war-finance policy borrowing has limitations which should exclude it from any comprehensive scheme of military preparedness. Modern wars are so enormously costly that a country which resorts to borrowing has not merely created for itself a difficult problem of taxation after the return of peace; it has also placed itself in a financial position which will make it exceedingly difficult to find the money to maintain and improve its military establishment in future years. Purely as a military measure, then, the conscription of income during a war should be adopted, unless such policy would prove in any way a serious obstacle to the effective conduct of hostilities.

The injustice of treating those who provide the funds for war purposes more generously than those who risk life itself will not be questioned. Consider for a moment the contrast under the borrowing method of war finance between a soldier in receipt of an income of 500 pounds before a war and his neighbor who remains at home in continued receipt of a similar amount. The civilian reduces his expenditure in every possible way and subscribes a total of 800 pounds to a war loan. He is rewarded with a high rate of interest, to which his soldier neighbor must contribute his quota in higher taxes if he is fortunate enough to return from the front. The contrast becomes still greater if, as often happens, the income of the stay-at-home increases during the war and if he is able to secure a superior position. On the other hand, the soldier often finds it difficult to secure a position as good as that from which he was taken at the beginning of the war.

356. Destruction of Capital: A Business View⁶

There are sound reasons why an important share of the expenses of the war should be raised by taxation during the war. Most lines of business are under extraordinary stimulus, profits are larger than usual, wages are generally higher, and the employment of the people is very complete. Therefore the country can afford to pay taxes now better perhaps than it will be able to in the years following the war, when it may be suffering from reaction. Moreover the industrial

⁶Adapted from the monthly bulletin of the National City Bank of New York on *Economic Conditions, Governmental Finance*, etc., June, 1917.

capacity and labor supply of the country are occupied with war business to such an extent that it is impossible to go ahead with constructive work in other lines as usual. The current income of the country must of necessity be given over largely to the government, either through loans or taxation, to enable it to carry on the war, and the proportion between loans and taxation should not be governed by a desire either to favor or to penalize wealth, but by the probable effects upon the general welfare, through the results upon industry, employment, and the ability of the country to meet conditions after the war. No taxation conceivably possible after the war will be as important to the masses of the people as the possible difference between a state of general industrial activity, with full employment to all the people, and a state of industrial depression such as this country experienced in the winter of 1914-15. Everybody will be able to pay his share of the taxes if the industries are busy and still have a better living than he will have if the industries are depressed.

The catch phrases which are used show the same want of comprehension of the fundamental relations of society which is responsible for most of the ill-feeling and friction in the industrial world. The agitation is all based upon the assumption that private wealth is devoted to the owners, and that if it is taken away from them, even though destroyed, nobody else is a loser. The whole idea is that the proposed taxation will reach hidden hoards, or possibly curtail the luxurious living of the rich, with apparently no appreciation of the fact that it will fall upon the industrial fund, the capital available for the support of industry.

Is the public interested in the industrial fund? Is it interested in the production of things for the public market? This is an opportune time to ask if it is interested in the supply and price of things of common consumption. Is the public interested in the development and improvement of industry, in the multiplication of power plants, and the enlargement of industrial capacity and output? Is it interested in the facilities for transportation? If it is agreed that the public is interested in these things then the proposal to withdraw capital in great amounts from these purposes should be considered with regard to its effect upon public interests instead of being treated as though the individual title-holders were alone concerned.

If this reasoning is correct the community should beware how it seizes for current use upon the capital which is certainly destined for the industrial fund. To a very great extent it must be done, but it is not to be done in the spirit of eager confiscation with which in some quarters it is advocated at the present time. It would be folly to

seize it upon the theory that the public is really acquiring anything at the expense of the rich owner, for under no conceivable circumstances will the taxation encroach upon the portion of his income which is devoted to his own support. Indeed the common argument for the seizing of large incomes is that it will involve no sacrifice to the owners. This is true; the sacrifice is from the fund destined to public use, and at the expense of society as a whole in the future.

357. The War Burden Upon the Common Man⁷

BY HERBERT J. DAVENPORT

If a great war is to go on the burden of it has to be drastically severe upon the poor as well as on the rich. Whatever the fiscal forms of collection, a high rate of charge must trench upon even the relatively meager incomes. Only when the masses contribute, and greatly, can the fiscal return be considerable.

Assume, for example, the pre-war level of prices; a national income of \$40,000,000,000; a war budget of \$15,000,000,000, approximately two-fifths of the current national income. The income tax returns for the year 1914 reported less than 400,000 incomes above \$3,000. A 100 per cent income tax on all these incomes, averaged as at \$3,000 without even a minimum exemption, would afford less than \$1,250,000,000 of revenues. Assume the incomes to have averaged \$6,000 each, without exemption—\$2,400,000,000 of fiscal returns. Double the incomes as allowance for under-statement—\$5,000,000,000 in all. Double the number of income receivers as allowance for evasions—\$10,000,000,000. The average family income for our 23,000,000 families, as deduced from the 1916 returns, appears to have been approximately \$1800, inclusive of corporate holdings and business gains. Eight hundred thousand families had incomes of upwards of \$2500 exclusive of corporate and business gain. The total income of all these 800,000 families (exclusive again of corporate and business holdings averaged at \$400 for each of the 27,000,000 families), was \$9,750,000,000. Assume now that three-fourths of all corporate and business returns accrued to these 800,000 families—\$9,000,000,000. A tax then that should take 100 per cent of all these incomes, without exemption of any sort, would provide \$19,000,000,000 of revenue out of an estimated total national income of \$50,000,000,000. Allowing a \$2,000 exemption, the total remaining incomes for the 800,000 families would be approximately \$17,000,000,000. At an average tax of

⁷Adapted from "The War-Tax Paradox," *American Economic Review*, IX, 39-41. Copyright, 1919.

33 per cent on the taxable revenues the yield would be less than \$6,000,000,000. At the actual rates as they were imposed for the year 1916 the yield of all income, corporate and profits taxes was \$345,000,000; for 1917, \$3,000,000,000.

Quite obviously, then, a war absorbing two-fifths of the current national resources of goods and services is possible only on terms of great sacrifices imposed on the relatively meager incomes. After the rich and the well-to-do have paid all that they can, there is still an enormous payment necessary from the masses. A great war calls on all for all that they can spare. The income tax returns for 1914 showed only one \$3,000 income out of seventy families. It is safe to say that to nineteen men out of twenty belongs the vague word *poor*; they are artisans, wage-earners, laborers. The support of a great war requires their grievous contributions.

Somehow, therefore, the masses of citizens must and do contribute to a great war. When the average income for civil consumption falls by two-fifths, the incomes of the masses must fall. Real wages in the average must suffer relatively to product, precisely because two-fifths of the national product is being diverted from civil consumption. The average income must suffer quantitatively also, unless it be true that the efficiency of civil production is so speeded up as to offset not only all the displacement of men and of capital and of civil production, but also whatever degree of rapid consumption is peculiar to the new war activities—shipping, coal, oil, munitions, ammunition, motor cars, strategic railroads, warehouses—and finally also the amount by which the consumption of food and apparel is exceptionally large. That the per capita expenditure in civil consumption declines relatively to the per capita product, rests in the mathematical necessities of the case. And that the per capita civil consumption must decline in quantitative command of goods is practically clear. Out of short crops an unusually large amount was exported. Iron was scant for civil consumption, also leather, fuel, woolens, and perhaps especially, cotton. This scarcity was indeed established by the very fact that old things were made to do duty in place of new, purchases being deferred in countless lines. This restriction of consumption, and measurably also of new construction, was the means by which ultimately the sacrifices of war were borne. There is little evidence that the per diem output of labor was appreciably increased, a very considerable body of evidence to the contrary. There has been much deliberate waste of time in a wide range of industries. And the very fact of a widespread redistribution of laborers into novel occupations involves the cancellation of much specialized skill. The new economic activities

of women counted for disappointingly and shamefully small results in the total. Whatever, therefore, the technical form of payment, the income of laborers had to suffer. The actual rate approached the charge upon the most princely of American incomes; the general rise of prices has far outstripped the general rise of wages. In this lag of real wages was the laborers' contribution. There is slight prospect of such rates in future income taxes for the retirement of the war bonds as shall offset the abnormal apportionment of burdens under the present methods. More probable is it that the future taxes will be more distinctly regressive, relatively to paying capacity, than are the present methods.

358. The Evils of Inflation^a

BY A. C. MILLER

The danger of the loan policy is that, by deluding itself with a notion that it is putting the burden onto the future, it will, through resort to fatuous and easy expedients, put the burden both on the present and on the future. This will happen if the loan policy, failing to induce a commensurate increase in the savings fund of the nation, degenerates, through the abuse of banking credit, into inflation—raising prices against the great body of consumers as well as against the government, thus needlessly augmenting the public debt and increasing the cost of living just as taxes would. The policy of financing war by loans, therefore, will be but a fragile and deceptive and costly support unless every dollar obtained by the government is matched by a dollar of spending power relinquished by the community—in other words, will fail and develop into inflation unless the dollars which are subscribed to the bonds of the government are real dollars, the result of real savings and of real retrenchment. The danger to be feared in undertaking to finance our war by credit is that sophistry and financial legerdemain may lead us to attempt to carry the operation through as an operation in banking finance instead of an operation in saving and investment. The doctrine is already current in the country, with the sanction of some leading bankers, that our war cannot be financed except by credit expansion running to the limits of inflation. Being dealers in banking credit, they naturally take the view that the expansion of credit in question will properly have to be an inflation of banking credit; for this is the new and most recent form of inflation which the gigantic war in Europe has been bringing to the front as a device in war finance.

^aAdapted from "War Finance and the Federal Reserve Banks," *Financial Mobilization for War* (1917), pp. 145-49.

Inflation as an expedient of public finance has long been practiced, although it has never had the sanction and approval of those whose business it has been to lay down canons of finance rather than to engage in the practice of finance. The record of our own great wars and the records of the great wars of other nations in modern times show pretty uniformly that timidity in facing the serious realities of war finance has usually developed a situation from which escape was finally sought through the desperate and costly expedient of government currency inflation. Such was our disastrous experience in the Civil War, when resort was had to the greenback currency, which was nothing but a device of inflationism, and some \$500,000,000 was thereby added to the cost of the war—which might have been avoided had the government's financial operation been maintained on a strong and healthy basis—to say nothing of the demoralization wrought in business and the hardships and iniquities inflicted upon the great body of defenseless workingmen and consumers. Clear and specific as the teachings of that experience are to those who can learn from history, it will remain for this war to demonstrate whether or not the lesson has been fully taken to heart. Inflation still has seductive potentialities for the pundits of paper finance. Even if we do not avowedly repeat the costly mistakes of our Civil War by ventures in the field of government currency inflation, we may yet reach a similar result and land the community in a similar plight through the more subtle and less vulgar process of banking inflation.

The same process, only in a vastly intensified degree, has been going on in the belligerent countries of Europe and has given rise repeatedly to the gravest expressions of solicitude by those who are engaged in looking through the tissues of paper finance to the inexorable economic facts. All of the belligerent countries of Europe, in one degree or another, have undertaken to finance the war by bank borrowing, with inflation results that, for the most of them, make a tragic record of hardship for the masses and needless augmentations of the nations' debts, and will leave behind, at the close of the war and for the next generation, a heritage of unspeakable financial confusion.

For let it not for a moment be overlooked that inflation, in its effects, amounts to conscriptive taxation of the masses. It is, indeed, one of the worst and the most unequal forms of taxation, because it taxes men, not upon what they have or earn, but upon what they need or consume. The only difference for the masses between this kind of disguised and concealed taxation and taxes which are levied and collected openly is that in the case of the latter the government gets the revenue, while in the former case it borrows it, and those to whom it is eventually repaid are not those, for the most part, who have been

mulcted for it. Inflation therefore produces a situation akin to double taxation in that the great mass of the consuming public is hard hit by the rise of prices induced by the degenerated borrowing policy and later has to be taxed in order to produce the revenue requisite to sustain the interest charge on the debt contracted and to repay the principal. The active business and speculative classes can usually take care of themselves in the midst of the confusion produced by inflation and recoup themselves for their increasing outlays. Indeed inflation frequently makes for an artificial condition of business prosperity. That is why war times are frequently spoken of in terms of enthusiasm by the class of business adventurers. But it is a prosperity that is dear-bought and at the expense of the great body of plain-living people. It would be a monstrous wrong if in financing our present war we should pursue methods that would land us in a sea of inflation in which the great body of the American people, who are called upon to contribute the blood of their sons to the war, were made the victims of a careless or iniquitous financial policy.

C. WAR TAXES

359. The Income Tax⁹

BY EDWIN R. A. SELIGMAN

The change in rates imposed by the War Revenue Act of October 3, 1917, as compared with the act of September 8, 1916, is of a three-fold character: an increase of the normal tax, a lowering of the exemption, and a rise in the scale of progression. A supplementary normal tax of 2 per cent is imposed, bringing the total to 4 per cent. The law furthermore provides for a reform that had been widely urged by those who considered the exemption of \$3,000-\$4,000 entirely too high. Accordingly, in the case of the supplementary normal tax the exemption is reduced to \$1,000 for unmarried and \$2,000 for married persons. The law also provides for an additional exemption of \$200 for each child under eighteen years of age or incapable of self-support because of mental or physical defect.

In order to counterbalance this reduction, which will bring into the toils of the law millions of new taxpayers, the rates on the higher incomes are sharply increased. The original law, it will be remembered, had provided for a so-called additional tax (popularly called the surtax, or sometimes the supertax) on all incomes over \$20,000, ranging from 1 to 8 per cent on the highest amounts. The law of 1916, as we have noted, increased the graduated scale so as to run

⁹Adapted from "The War Revenue Act," *Political Science Quarterly*, XXXIII, 17 ff. Copyright, 1918.

from 1 to 13 per cent. The new law reduces to \$5,000 the amount at which graduation begins and provides an entirely different scale, ranging from 1 to 50 per cent, for the supplementary additional tax. The result is that the maximum rate is now 67 per cent, that is, 2 per cent supplementary normal tax, 13 per cent old additional tax, and 50 per cent new additional tax.

This is the highwater mark thus far reached in the history of taxation. Never before in the annals of civilization has an attempt been made to take as much as two-thirds of a man's income by taxation. In comparing our present income tax with the British, moreover, it is to be noted that our rates are much higher on the larger incomes and much smaller on the lower and moderate incomes. The American scale is an eloquent testimony to the fact, not only that large fortunes are far more numerous here than abroad, but also that there is greater appreciation of the democratic principles of fiscal justice. For the overwhelming trend of modern opinion is clearly in the direction of applying to excessive fortunes the principle of faculty or ability to pay. It still remains to be seen, however, whether the new law, with its exceedingly high rates, will turn out to be as workable administratively and as productive fiscally as a somewhat lower scale would have been.

The second change in the law is the virtual abandonment of the stoppage-at-source method of collection. It will be remembered that the two leading types of income tax that had developed during the last generation were the so-called lump-sum method of Prussia and the scheduled method of Great Britain. The Prussian system, which rested finally upon accurate official assessment, depended for its success upon an incorruptible civil service and the fear instilled into the average taxpayer of making false returns. Great Britain had long since abandoned the scheme and had substituted the plan of imposing the responsibility of the tax upon the person who paid the income rather than upon the recipient. As between the unchecked lump-sum and the stoppage-at-source method it is clear that under American conditions the latter was preferable. At the close, however, of the discussion in 1913, an alternative plan was suggested, to which the present writer gave the name of information-at-source, designed to achieve the substantial purposes of the collection-at-source method without its discomforts and complications. This alteration has now been finally adopted in essence. The law makes the tax collectible from the recipient of the income, but imposes upon the payers of income the obligation to give full information of the amount and conditions of payment. Information is required from corporations as to dividend payments, from brokers as to details of

transactions, and, in general, from all persons making payment to any other person of any "fixed or determinable gains, profits, and income over \$800." Only two exceptions are permitted. Withholding at the source is retained for the original normal tax in the case of income accruing to non-resident aliens and of interest on tax-free bonds. The latter exception was inserted as a concession to bondholders who, relying upon the promise of the corporations to assume the tax, had paid so much more for the bonds. It is to be regretted, however, that the law fails to include the provision, found in the British statute, which prohibits for the future the inclusion of such tax-free covenants in corporate bonds.

On the fundamental question of what constitutes income the new law does not take any fresh stand. This still remains a difficulty, which, however, not only is shared by many other income-tax laws, but is traceable to an inadequate analysis. The distinction between capital and income has received far less scientific attention than it deserves. It may be said that there are at least three different conceptions of income found in economic literature: the one emphasizes the idea of regularity or recurrence; the second accentuates the idea of product or return from an enduring source; the third, or net-profit theory, lays stress on the surplus of what comes in over what goes out. It is impossible here to discuss the widely divergent practical consequences of these theories. It may be said, however, that until economists have decided which of the three is correct, the interpretation of the law is bound to create endless trouble. Some of the chief difficulties of the interpretation are still associated with the question of stock dividends and depreciation in the market value of securities.

Up to this point we have discussed the individual income tax. The law, however, provides, as before, also for a corporate income tax. In addition to the existing normal tax of 2 per cent, a supplementary tax of 4 per cent is imposed upon the income of every corporation, joint-stock company or association, or insurance company, but not including partnerships. The result is that corporations will hereafter pay a tax of 6 per cent on their income. In computing the tax, however, all dividends received by one corporation from another taxable corporation are deductible—an important concession to holding companies but a concession limited to the supplementary tax. The limitations on the deduction for interest and taxes referred to above in the case of individuals are applicable also to corporations, as is the provision permitting the crediting to income of the excess profits levied in the same year.

Corporations, however, are subject to a further tax of 10 per cent on the amount of profits remaining undistributed six months after the end of the year. Income actually invested in business or in federal bonds is exempted from this additional tax; but if it transpires that profits retained for employment in the business are not so employed or are not reasonably required therein, they shall be subject to a tax of 15 per cent. It may be conjectured that these provisions will lead to a speedy distribution of all corporate profits that should properly go to the stockholders.

In any fair estimate of the present law five defects may be noted, some of them survivals, some of them additions.

The first weakness is the failure to introduce differentiation between earned and unearned income. An attempt was made to persuade Congress to adopt this distinction, which, as is well known was initiated in Great Britain almost a decade ago. The reason advanced for the refusal—the fear of further complicating the tax—is far from convincing. Simplicity gained at the expense of equity is not to be admired. The situation is in fact aggravated by the extension of the excess-profits tax to professional incomes, as a result of which earned incomes, instead of being taxed less, will actually be taxed more than unearned incomes. This is of course a travesty of justice.

The second defect is that returns, instead of being demanded from everyone, are required only from the non-exempt classes, that is, from those whose income exceeds \$1,000-\$2,000 or \$3,000-\$4,000 respectively. This, coupled with the failure to compel a return of income from government tax-free bonds, will prevent the collection of valuable information as to the total social income and its distribution. A return, including the entire income, should be required, as is almost uniformly the case elsewhere, from every citizen.

Third, the provision as to the calculation of losses and gains is still inequitable. On any one of the three different theories of income referred to above, our present practice of counting certain gains as income and of refusing to allow for corresponding losses is not only indefensible, but sure to create gross inequalities.

In the fourth place, the treatment accorded to dividends is highly questionable. Dividends must indeed be reported by individuals and, although not subject to the ordinary normal tax, are liable to both the supplementary normal tax and the additional taxes. A new section, however, provides that dividends are taxable at the rates prescribed for the years in which the corporate profits are accumulated. This is unjust because the dividends ought to be considered income when received, irrespective of when the profits were earned. If the war

should last several years and be attended by an increase of war taxes, it is likely that many wealthy stockholders will escape by the fact of the corporate profits having been originally earned in the period before the high taxes were imposed. Moreover the law will probably be so complicated as not to be easy of enforcement. For the rate of the tax will depend upon the amount of total income in any one year, and the identical amount of dividend may form an entirely different proportion of that income from year to year. It will be increasingly difficult, therefore, to administer the provision. In the meantime great confusion will ensue.

The final defect is that no machinery has yet been devised to check the returns from individuals engaged in business or occupations. In the case of large corporations and partnerships, as well as individual incomes from securities, the system of information-at-source, together with the observance of modern accounting rules, will in all probability ensure fair accuracy in the returns. But where neither of these safe-guards is applicable, a large loophole is left open. Where the rates of taxation are as high as at present, the dangers of evasion are multiplied; and evasion means not only loss of revenue but inequality. Much has been done elsewhere to institute checks designed to diminish this danger. While some of the statements advanced in and out of Congress as to the widespread evasions in the present law are clearly exaggerated, there is still room for decided improvement in administration.

360. The Excess-Profits Tax¹⁰

BY EDWIN R. A. SELIGMAN

Although the income tax, both old and new, is designed to provide about the same revenue as the excess-profits tax, the latter is the novel part of the law. What is its significance?

The first point to be emphasized is that it is a business tax. The criteria that may be employed in classifying taxes are manifold. For the purpose, however, of explaining this new impost it will suffice to observe that taxes on wealth are susceptible of a threefold division. The tax may be on either property or income, on either individuals or corporations, on either persons or things. It is this last distinction which is of consequence here—the distinction which the lawyers make between taxes *in personam* and *in rem*. Among the “things” on which taxes may be imposed are land, capital, and business. The excess-profits tax is one on the business, irrespective of the person who conducts it. It is like the real estate tax in New York, assessed

¹⁰Adapted from *ibid.*, pp. 25 ff. Copyright, 1918.

on the land without regard to the owner. The objection, therefore, is not valid that because the tax is imposed on profits it constitutes double taxation in superimposing one income tax upon another. This is the same confusion of thought which has led some writers to object to the inclusion of a corporate income tax in a law which endeavors to reach the entire income of the individual. The corporate income tax, like the excess-profits tax, is a tax on the business, not a tax on the individual; a tax on a thing, not on a person.

In the second place, the excess-profits tax is not a war-profits tax, if by this term we mean a tax imposed upon the additional profits resulting from the war. This constitutes its chief difference from the war-profits taxes levied in other countries.

The almost simultaneous institution of the war-profits taxes abroad is easy of comprehension. Never before in the history of the world have such gigantic sums been expended by belligerents or have such colossal gains been made by private individuals in belligerent and neutral countries alike. It was a natural feeling that no private enterprise should be permitted to make inordinate gains out of the misery of humanity, and that the community should be entitled to a great part of the profits for which no individual enterprise is really responsible. The consequence was that the government everywhere put in a claim to a large share of these profits due to the war. The proportion has risen in some countries to 80 or 90 per cent, and the war profits have in general been defined as the excess of profits during the war over those during a pre-war period.

The reason which induced Congress to modify this principle was that not a few of our largest business enterprises had been making immense profits in the pre-war period, and that, inasmuch as their profits, both past and present, were scarcely being touched by the corporate income tax, these enterprises would virtually be exempt, while their more unfortunate competitors, who had done relatively poorly during the pre-war period, would be heavily burdened. The decision was therefore reached to levy the tax, not on war profits as such, but on excess profits in general. Although the tax is called the "war excess-profits tax," the term really means the tax on excess profits levied during the war, just as the terms "war excise taxes" or "war income tax" mean the respective taxes levied during the war.

The significant fact, however, is that nothing is said about the limitation of the tax to the period of the war. In the war-profits taxes abroad the taxes cease automatically with the end of the war, for where there is no war there can be no war profits. It is entirely possible, however, for our tax to continue after the war, just as it is possible that fiscal exigencies may compel the continuance, in whole

or in part, of our war income tax or of our war excises. It will be seen, therefore, that we have here, ready to hand, a potential source of the future income which will be so sorely needed hereafter, and for which European statesmen and publicists have been dimly groping.

When, however, we come to consider the precise way in which this new business tax has been worked out, we find that it is open to serious criticism. In all the European laws the taxes are not on war excess profits but on excess war profits; that is, on the excess of war profits over peace profits. Since, however, our plan is to tax excessive profits in general rather than the excess over a pre-war standard, the criterion had to be lodged elsewhere than in pre-war profits. Unfortunately the criterion of normal profits is declared to be a certain percentage of the capital employed, the pre-war period being utilized only incidentally in ascertaining this normal percentage. That is to say, in computing excess profits the law takes the excess over a so-called deduction or normal amount, consisting of a fixed sum (\$3,000 for domestic corporations, or \$6,000 for partnerships, citizens or residents), together with an amount equal to the percentage of the invested capital represented by the average annual income during the pre-war period, provided that this percentage shall in no case be less than 7 nor more than 9 per cent of the capital. The pre-war period is held to be the period from 1911 to 1914. In case the business was not in existence in those years, the deduction is fixed at 8 per cent instead of the 7-9 per cent. And in case there was no income or a percentage of capital earned by a similar or representative business.

From this base line of normal profits are computed the excess profits, the tax rising progressively with the excess, being fixed at 20 per cent on the excess profits up to 15 per cent; 35 per cent on the excess from 15 to 20 per cent; 35 per cent on the excess from 20 to 25 per cent; 45 per cent on the excess from 25 to 33 per cent; and 60 per cent on the excess profits over 33 per cent.

It is obvious that the important point here lies in the computation of capital, for with one exception income is defined precisely alike in the excess-profits and the income-tax laws. The greater the amount of the "invested capital" as compared with a given income, the smaller will be the percentage and the tax. What constitutes invested capital, however, is so elusive as to be virtually impossible of precise computation. Not only will there be gross inequality between businesses which enjoy the same income but which are variously capitalized, thus putting extra taxation on small and conservatively capitalized concerns, but all manner of opportunity will be afforded for evasion of the law. The effort made to define capital in the law is unavailing. Invested capital is defined as actual cash paid in, the actual cash value

of tangible property, and the paid-in or earned surplus employed in the business. Patents and copyrights are included up to the par value of the stock paid therefor, and the same rule is declared applicable to the good-will, trade-marks, and franchises or other intangible property, provided that if purchased before 1917 the amount is limited to 20 per cent of the capital. The inadequacy of these provisions is manifest.

It has been contended, in defense of the law, that it is on the whole immaterial whether the criterion be sought in income or in capital; for capital, we are told, is nothing but capitalized income. In reality, however, capital is not capitalized income; capital is the capitalization, not only of present income, but of anticipated future income, which is a very different thing. If, as frequently happens, the anticipated future income does not materialize, there is a vital difference between a tax on capital and a tax on income. The objection to the law still remains, as before, that the choice of capital not only constitutes a clumsy attempt to reach taxable ability, but introduces a gross inequality in principle and a deplorable uncertainty in administration. While something may no doubt be done to clear up the ambiguities and to remove some crass inequities, enough will remain to deprive the measure of a claim to scientific or practical validity.

The most serious objection to the law, however, has yet to be mentioned. Even assuming that the above difficulties were removed, that the capital could be accurately estimated, and that it varied in amount proportionally with the income—even on these unlikely assumptions the tax would still be defective.

This is due to the criterion chosen for the basis of the graduated scale. Something can be said for a graduated tax on income; something can even be said for a graduated tax on capital; but it is difficult to say anything in defense of a tax which is graduated on the varying percentage which income bears to capital. To penalize enterprise and ingenuity in a way that is not accomplished by a tax on either capital or income—this is the unique distinction of the law. For in the first place, while it is true that excess profits are sometimes the result, in part at least, of the social environment, they are not infrequently to be ascribed to individual ability and inventiveness. While it is entirely proper that a share of the profits should go to the community, it is not at all clear that the tax should be graduated according to the degree of inventiveness displayed. But there is a still more important consideration. Almost all large businesses have grown from humble beginnings, and it is precisely in these humble beginnings that the percentage of the profits to the capital invested is apt to be the greatest. The criterion selected, therefore, is the one best

calculated to repress industry, to check enterprise in its very inception, and to confer artificial advantages on large and well-established concerns. Nothing could be devised which would more effectively run counter to the long-established policy of the American government toward the maintenance of competition.

What then is the alternative? If the excess-profits tax has come to stay, as is probably the case, a slight change in the criterion employed would accomplish the desired result. What is needed is that the excess-profits tax should become a progressive income tax. It is significant that this is actually done already where the capital criterion is impossible. The law provides that in every business without any capital, or with only a nominal capital, a tax of 8 per cent should be paid on the income, in addition to the income tax. This provision has indeed the awkward result of making earned income pay at a higher rate than unearned income, but it is none the less significant. The individual income tax is levied on a highly progressive scale, but the corporate income tax is proportional. All of the desirable ends sought to be achieved by the excess-profits tax would be reached by converting the corporate income tax into a progressive tax. Graduation would then be applicable in both cases, the only difference being that while the test of ability to pay would be sought for the individuals primarily in the sacrifice imposed, it would be found for the business primarily in the privilege enjoyed.

361. A Tax on Luxuries¹¹

The tax on "retail sales" is recommended, not only to raise additional revenue, but for the equally important purpose of discouraging wasteful consumption and unnecessary production. It would be superfluous at this stage of the war to dwell upon the fact that waste and extravagance are akin to treason. We pay lip homage to this truth, but we neglect its practice. We are not yet cutting our personal budgets sufficiently to make the excess of national production over national consumption equal to the needs of the government.

The retail-sales tax distinctly labels the taxed article as luxurious and serves notice that the government's ban is upon it. The specific tax on luxuries, however, is paid by the producer or dealer and is likely to reach the consumer concealed in the form of an increased price. At this time it is necessary, not only to tax extravagance, but to make the tax known and felt by the taxpayer. It is for this reason

¹¹Adapted from a memorandum of possible sources of revenue suggested by the Treasury Department and submitted to the Ways and Means Committee, 1918.

that despite some administrative objections a tax upon retail sales is so distinctly worth while.

Assuming the correctness of this general attitude, it seems to follow that the retail-sales tax to be effective must be heavy. The really needy consumer is amply protected by exempting from the tax altogether those classes of articles which the poor actually buy or need to buy. Other articles must be taxed vigorously if the tax is not to be interpreted as legitimatizing extravagance. Place a 20 per cent tax on nonessentials and the consumer will pause before buying. Impose only a 10 per cent tax and he will frequently satisfy his conscience by purchasing the article and paying the tax. This aspect of the question seems vital. Whether 20 per cent is high enough to discourage extravagance is a question; that 10 per cent is too low, under existing conditions admits of little question.

It is highly important that the consumption of unnecessary things be given up, in order that both capital and labor may be liberated for the production of those things which the government needs for the prosecution of the war.

For the same reason, it is important that the usual consumption of even necessary things should be curtailed. An industrial condition adapted to peace demands must give place to an industrial condition adapted to war demands before the business activities of the nation can be said to be mobilized for war. Processions and brass bands cannot accomplish this result, nor an appeal to patriotism, nor the wielding of the big stick. There is one way, and one way only, of attaining this result, and that is through the prices of things that people buy.

If, now, the government could secure a portion of the revenue it needs by taxes that work their way into prices in such a manner as to direct the consumption of the people, and consequently, their production, along proper lines, the by-product of such a financial policy would be even more significant than its direct product. Indeed, without this by-product no financial program can succeed. A sound financial policy alone will not obtain the needed funds, nor obtain them in such a way that future revenues may be taken from the same source; a sound financial policy must, in addition to such results, exert a positive influence for the accomplishment of that industrial readjustment which the advent of a great war makes necessary. The federal income-tax laws have no such influence, and for this reason are to be condemned as exclusive war taxes.

The general conclusion of the foregoing comments may be summarized as follows:

The initial burden of a war is in the industrial transition from a condition of peace to a condition of war. Every act of government that touches business, and especially taxation, should be shaped to the accomplishment of that transition. The excess-profits and differential income taxes are over the top of the problem, and, consequently, are incompetent as war taxes. The new war taxes to be passed by the present congress ought to be written from a more comprehensive point of view. They ought to be regarded as a part of a systematic program of war financiering.

362. The New Revenue Tax¹²

BY THOMAS SEWALL ADAMS

The Revenue Act of 1918 will impress the student of financial history as a signal victory for certain theories of taxation which a few years ago were regarded as "socialistic." Within a quarter of a century Justice Field pronounced an income-tax law socialistic and unconstitutional because it exempted incomes of less than \$4,000 from the 2 per cent burden it imposed upon larger incomes. But the Revenue Act of 1918, designed to produce in the first twelve months of its operation \$5,788,260,000, will raise more than 80 per cent of this sum from progressive income taxes.

The estimates are worthy of notice. The war-profits and excess-profits tax—a form of income taxation unknown five years ago—is expected to raise \$2,500,000,000, or 43 per cent of the entire tax budget. The income taxes proper, individual and corporate, will raise \$2,207,000,000 additional, or 37 per cent of the tax budget. "Ability" taxes, therefore, account for more than 81 per cent of the entire tax levy. If we add progressive estate or inheritance taxes the proportion rises to more than 82 per cent; and if we add further the excises on beverages, tobacco, and other luxuries, together with taxes on admissions and dues, we account for nearly 94 per cent of this colossal tax bill, leaving only about 6 per cent to be provided by taxes on transportation and on necessary processes of production and commerce. Practically no tax is laid upon articles of actual necessity. Contrast this with the tax program of the Civil War and we find much reason for congratulation. The new revenue bill may be full of imperfections, but it represents a striking victory for ability taxation and democratic finance.

The most important feature of the new law is the striking advance in rates. Income-tax rates have, for most taxpayers, been more than

¹²Adapted from an article with the foregoing caption in the *Nation*, CVIII, 316-17. Copyright, 1919.

doubled. The taxpayer having a wife but no children will pay, on an income of \$3,000, \$60 under the Revenue Act of 1918 as compared with \$20 under that of 1917; on \$10,000, \$830 as contrasted with \$350; and on \$100,000 \$35,030, as contrasted with \$16,180.

On moderate incomes we have possibly been too lenient, but on the very rich the rates are probably too high for successful collection. There are outstanding in this country probably five or six billion dollars of tax-exempt securities in which the rich can freely invest their money without fear of taxation, and rates of 70 per cent or more merely drive them to make such investment and to practice illicit as well as authorized methods of evasion. The income-tax rests largely, for its successful administration, upon the honesty of the taxpayer, who is, all things considered, surprisingly honorable in his dealings with the tax official; but rates which impress him as excessive undermine his morale. He will evade a 50 per cent tax where he would not evade one of 15 per cent.

While the rates of the new income tax are high, the law is plentifully besprinkled with what have come to be called "cushions." The new law makes adequate allowance for obsolescence in general and for amortization of the extraordinary costs of war plant. Falling inventories have also been provided for. One of the most striking departures of the new law is the provision authorizing a credit for taxes paid in foreign countries. Many other instances might be cited of the solicitous care to soften the mechanical rigor of federal income laws.

Some of the more radical advocates of heavy taxation have been disposed to criticise this solicitude, interpreting such action as a concession to big business. This criticism is doubly mistaken. The exemption of individuals, partnerships, and personal service corporations from the profits tax; the limitation of the surtaxes on profits derived by the prospector from the sale of mineral and oil properties which he has discovered or developed; the limitation of the profits tax on the first \$20,000 of taxable income show that Congress has been more lenient with the small than with the large taxpayer.

But there is also a major question of financial policy involved. Advocates of high income and profits taxes should be the first to protest against the taxation of receipts which are sometimes called income or profits but which are not in reality income or profits of the kind from which heavy taxes can be taken. When tax rates are low you can muddle through without much respect for the finer equities. But when the tax rates reach 75 and 80 per cent, the inherent complexities of income taxation must be recognized, or taxpayers will be bankrupted by the tax—and in no democracy can a tax

long endure which regularly "breaks" a material percentage of the tax-paying population. So long as relief provisions are based upon equity and actual knowledge of the involved conditions of actual business, it will be practically impossible to multiply them unduly. With them, progressive income and profits taxes may perhaps provide the foundations for a liberal democratic finance. Without them, these fiscal instruments become transformed into engines of destruction.

The new revenue act is the bill of no one man and no one party, but the joint production of many minds and many influences. It is a characteristic product of democratic financial procedure, and has the defects of its qualities. Few tax laws in the history of this or any other country bear greater evidence of a desire to accomplish discriminatingly exact justice, and it is this effort to do justice in the exceptional case that accounts for the oppressive complexity of the new measure. It is easy to demand tax laws which shall be sure and simple, explicit and certain, but the day of simple tax laws has probably passed. A corporation fortunate enough to earn 30 per cent on its capital will now in most cases pay in profits and income taxes more than half of its earnings, to say nothing of the capital-stock tax and the surtaxes imposed upon any dividends paid to stockholders. The law which imposes such a burden must be framed with meticulous care. Simplicity must give way to the complexity of truth.

D. TENDENCIES IN FINANCE

363. Standardizing Expenditure¹⁸

BY WILLIAM LEAVITT STODDARD

It is a very fortunate thing for all concerned that there is only one Ways and Means Committee for the House of Representatives. Just now the casual visitor to the capitol will find that committee sitting every fine morning, holding hearings on the bill which is to raise revenue for the prosecution of the war. If Congress raised its money as it expends it, instead of one Ways and Means Committee there would be half a dozen, each with a different name: A committee on revenue, a committee on income from the territories, a committee on supplying the treasury, and so on. But, broadly speaking, it is true that the task of raising revenue directly is intrusted to just one group in the House. In the Senate it is intrusted to the Finance Committee.

¹⁸Adapted from "Congress Needs a Budget," the *Independent*, XCIV, 508-9. Copyright, 1918.

If there is one revenue-raising committee for each branch of Congress, if Congress has one bookkeeper for the work of securing funds and defining tax policy, why does not and cannot Congress have one bookkeeper for the work of appropriating the expenditures of the nation? Better still, why not have a single bookkeeping committee charged with the duty of regulating income and outgo? Why not go the whole way and be businesslike? Why not, in short, have a budget system and a budget committee?

Only a few weeks ago a little incident occurred which shows what kind of trouble Congress can get itself into by reason of its unbusinesslike accounting methods. It was announced in Congress that the War Department wanted about \$15,000,000,000 for the next year. This figure was arrived at—or was intended to be arrived at—by adding up the estimates submitted by the War Department to the House. It is not clear to whom the estimates were sent, but it is clear that two committees were concerned, the Military Affairs Committee and the Appropriations Committee. The first-named committee frames the bill known as the army appropriation bill, the second the fortifications bill. Both bills appropriate money for defense but they are separate bills. And the committees operate separately.

Because of the fortunate employment of statisticians by the two committees who happened to hold converse together, it was discovered that the War Department was not asking for fifteen billions; it was only asking for \$1,771,666,847 and some odd cents. It seems that the same provision for coast fortification had been inserted in each bill, and had therefore been added up twice. Needless to say the error was corrected. But it might not have been found until the bills had been passed.

Everybody who has thought about the matter at all knows that Congress needs a budget system. An expert commission in President Taft's day recommended it, and for some time there was a good deal of agitation, but it got nowhere. President Wilson has urged it, but there has been no action on the part of Congress. The basic reason why Congress does nothing is conservatism, opposition to change, the political theory of let-well-enough-alone-haven't-we-always-worried-through-somehow-before-this? In addition there is the natural distrust of able and experienced men, accustomed to handle things one way.

A failure to understand Congress is largely responsible for the failure of a national budget. The efficiency experts on Mr. Taft's commission performed a magnificent piece of work which came to naught. They offended Congress by offending powerful individuals

in Congress. They tried to force Congress to do something which it did not understand, was by nature opposed to do, and would prefer to do by its own apparent initiative.

Congress possesses a peculiar psychology, and the most successful president is he who understands it and who, by that understanding, is able to secure the adoption of his pet measure. Events, properly guided, will carry the budget with them. A possible solution may be found in this: A centralized budget committee does not necessarily require the abandonment of all the little appropriating committees. It merely means the centralization of their plans and decisions in one switch-board, which, being central, will have knowledge and facilities for competently adjudicating between demands and appropriating sums. By common consent—a means by which there is much done extra-legally these days—the President can secure the formation of an informal centralized budget committee from powerful members of the House, and can suggest to them the advisability of meeting, say, with a central executive budget committee representing the executive departments. Such a move would cut miles of red tape and involving precedent. It would be the sensible, business-like way of doing the job. It would preserve honest pride and legitimate prejudice, and would, moreover, fully recognize the delicate psychology of the patient.

The budget is coming, whether by this way or another, it makes little difference.

364. Spheres of Taxation ¹⁴

The action of Congress in adopting at the close of the session the so-called "revenue" bill marks another definite stage in the development of the new system of taxation necessitated by actual and prospective outlay for national defense.

The striking aspect of the new tax measure is found in the circumstance that it apparently represents a definite adherence on the part of the federal government to direct taxation along lines that are already being followed by the states as the main avenue through which their current means of support are to be obtained. It is true that the income tax, both corporate and individual, has now been on the statute books for some three years, and that in other particulars direct taxation has been employed since the present national crisis developed and upon former occasions of emergency or trouble. Nevertheless, there has always been the belief in most quarters that these taxes would not constitute a permanent feature of federal

¹⁴Adapted from "Washington Notes," *Journal of Political Economy*, XXV, 385-87. Copyright by the University of Chicago, 1917.

finance, perhaps with the exception of the income tax, but that eventually there would be a recurrence to indirect taxation. While of course it is true that a change in administration at some time in the future may result in such an alteration of policy as is thus contemplated, it is also true that no such change will occur for four years to come, and that—more important than this—the country is apparently placing itself upon a new and very much higher level of expenditure. Unless general world-disarmament should come at the close of the war, there seems little reason to expect a very great lessening of federal expenditure for military and naval purposes.

If it be supposed, therefore, that the federal government has definitely committed itself to a fairly large program of direct taxation, in most of the states will necessarily recur the question how to readjust their own taxes accordingly. The present program seems to suggest considerable danger of duplication and of injustice, conditions which in all such cases injure the tax-producing owner of the community, besides being a great source of dissatisfaction among contributors. Moreover, the question is quite certain to become acute whether all grades of government can be considered warranted in the attempt to obtain the bulk of their incomes through direct taxation, particularly when so large an extension is made in income taxation. Thus there seems reason for expecting even a worse confusion of tax legislation in the United States than has heretofore exhibited itself, and this probably without any interest on the part of legislators to bring about such an condition.

As is well known, there has never been in federal finance any well-organized or far-sighted program of fiscal management, although for years past the need for such a program has been frequently urged. Committees of Congress have acted in emergencies upon the basis of expediency, arranging to get what they could by the least troublesome method. The states, meanwhile, as is well known, are largely cut off from indirect sources of taxation, owing to constitutional limitations upon their power. This represents a situation which can be corrected only through the employment by the federal government of indirect taxation as a make-weight or offset, its direct taxes being adjusted to those of the states in such a way as to leave the field as nearly free as possible for the latter.

Conditions of this kind are not easy to bring to public attention in a prompt and effective way, while the lack of harmony and uniformity on the part of state legislatures is too well known to require more than passing mention. In the absence of some new method of bringing about the adoption of a general program for the readjustment of taxation and its division on equitable lines between national, state,

county, and municipal governments, there is but too much reason to fear the development of even more conflicting and unsatisfactory conditions in this regard than have been characteristic heretofore.

365. Public Capitalization of the Inheritance Tax¹⁵

BY ALVIN JOHNSON

There are new burdens to be assumed, and tremendous ones, just over the present horizon of the state. Pensions for the superannuated and disabled, relief for the sick, reformation of the outcast, subsidies for indigent motherhood, conservation of child life and of the human resources we now neglect through parsimony in educational effort are among the burdens which the state will in the end be forced to assume. Whether we approve or disapprove of the state assumption of responsibilities of this nature, as dispassionate observers of historical tendencies we are compelled to admit that in every modern state the party of "social reform" is making rapid headway. There is in the existing social constitution no opposing force powerful enough to prevent the ultimate realization of part, if not of the whole, of the program of the social reformers. With the new fiscal burdens that will have to be assumed, new sources of revenue must be found, or old sources must be made more fruitful. It is a realization of this situation that fixes the eye of the democracy upon the vast mass of wealth passing each year from the able hands of its accumulators to the hands of all but passive heirs. What profit shall the democracy fix for itself on death's turnover?

To Adam Smith and his immediate successors the inheritance tax presented one serious defect: it is an unthrifty tax, falling, not upon "revenue," but upon capital, and hence tends to deplete the national stock of parent wealth. If this view of the matter is valid, the progress of inheritance taxation as a source of ordinary revenue cannot be regarded as an unmixed good. Admitting, as we must, that the maintenance of the capital stock is not in itself the highest end of social policy, and that we must at times accept capital depletion as the legitimate cost of a higher good, we are yet not justified in overlooking the fact that the dissipation of accumulated capital is a social cost which should be reduced to a minimum, so far as this is possible. This point, I assume, scarcely needs argument, as the social-economic value of thrift is one of the best-established values of economic theory.

The inheritance tax rests upon the entire mass of wealth, including that which originates in unearned increment as well as that which

¹⁵Adapted from "Public Capitalization of the Inheritance Tax," *Journal of Political Economy*, XXII (1914), 160-80.

originates in saving. But the state does not take from a given inheritance proportionate shares of the lands, reproducible goods, franchises, and other privileges that compose it. The public authority demands money, and this is drawn, in one way or another, from liquid capital. The whole of the inheritance tax, then, is paid out of the fund of fluid, mobile capital, which is the sole financial basis of the goods which conserve or increase our productive equipment—the fund of which it may properly be said that it originates in saving.

With rates of inheritance taxation so light and accumulations so large as they are in most of our states, the tendency of such taxes to trench upon accumulated capital may be almost negligible. But it would be hazardous to assume that accumulation in the United States can continue indefinitely at the present rate. Our large savings from income may be explained, in part at least, by economic conditions which are manifestly transitory. Our working class, recently transplanted from a less fertile economic field, secure incomes in excess of their accustomed needs, and accordingly have a surplus for accumulation. Our men of wealth, newly enriched, have not, as a class, acquired the art of luxurious consumption. Their incomes outrun their expenditures, and the surplus accumulates without active effort on their part. New opportunities presented by nature or created by society have always been available and have served as an additional stimulus to thrift. One cannot gain title to a homestead, one cannot seize and exploit coal lands or street-railway franchises, without the control of funds accumulated from income. Rarely, in a rapidly developing economic state, is it possible for an entrepreneur to draw from pre-existing funds all the capital requisite to a full exploitation of his opportunities. He must supplement the funds which he already owns and those which he can borrow with funds saved from his current income, if he is unwilling to forego many chances of great profit. "Unearned increment" thus serves as a premium upon thrift.

As our economic conditions become more settled the unearned increment loses much of its potency as a stimulus to thrift. Furthermore, our laborers are raising their standards of living and our capitalists are learning the ways of a society which knows how to spend its income. How soon the rate of accumulation will begin to decline, and how rapid the decline will be, we need not attempt to predict. For our present purpose it is sufficient to point out that a tax rate which would today absorb 20 per cent of our annual accumulations would absorb a much larger percentage of the annual accumulations of, say, 1964.

Granted, then, that the evil of unthrifty inheritance taxes is negligible at the present time, when the taxes are light and the rate of accumulation is high. Such taxes, nevertheless, are destined to become heavier and the rate of accumulation is destined to become less. The evil, obviously, is one which has the capacity of growing into importance.

If the inheritance tax is indeed affected with the vice of unthrift and if the defect may lead to such serious consequences as have been indicated, it might be thought to be a part of wisdom to abandon the tax altogether, or to restrict it to so narrow a range that its power of destroying accumulated capital would be negligible. To propose such a restriction of the tax, however, would be idle, in view of the powerful social and political forces to which its development responds. Economists may urge the necessity of capital conservation, but the democracy will be slow to recognize such necessity, so long as the alternative to a policy of public dissipation of capital is the perpetuation of vast private estates. Must we accept this alternative? There seems to be no good reason why we should. There is nothing in the nature of the state which requires it to assume the rôle of a prodigal heir who squanders his inheritance upon current needs instead of administering it prudently with a view to its future increase. The state can adopt the same policy which every prudent person recommends to the private heir. It can treat capital acquired through inheritance as a fund to be maintained intact. Let the state set apart, as a permanent investment fund, the proceeds of all inheritance taxes, and depletion of the natural capital will at once cease.

The public capitalization of the inheritance tax would tend to conserve the national stock of productive wealth. It is a policy that would encounter no insuperable administrative difficulties; it would not seriously prejudice the interests of the private investor. Politically and socially such a policy, if it has potentialities for evil, would appear to have far greater potentialities for good.

There is manifestly nothing revolutionary in principle in a capital fund owned and managed by the state for the benefit of a particular public service. Public and semi-public endowment funds now in existence in this country amount, in the aggregate, to an imposing sum. We are living in an epoch in which the funded endowment is employed with growing frequency. There is an increasing reluctance on the part of private donors to contribute funds merely for current expenditures; there is an increasing tendency on the part of public and semi-public institutions to transform extraordinary current receipts into permanent endowment. Not on principle, then, can a plan of the permanent endowment of a public service be treated as

revolutionary. If there is anything revolutionary in the plan, it must consist solely in the magnitude of the operations that it would entail.

Defenders of an economic system based upon the principle of private property must admit that at two points their position is decidedly weak: the private enjoyment of funded income, and the private burden upon the worker of mischances against which it is impossible for him to make provision. The private recipient of an absolutely secure funded income is freed from the necessity of exercising the skill and foresight which serve, in general, as an ethical basis for the defense of private property. The active manager of an industrial capital finds his position morally weakened by the fact that his property income is assimilated, in the social consciousness, to that of the functionless "remittance man." However much we may approve of the policy of throwing upon each able-bodied man the responsibility for finding means of self-support, we must admit that hundreds of thousands of our workmen are exposed to chances against which they can make no adequate provision. For hundreds and thousands of our city workers, the only escape from an indigent old age is premature death. For hundreds of thousands of families, the death of the chief breadwinner means the maiming of children's lives almost past recovery. A system which permits such evils is surely not free from moral weakness. Now, the general tendency of the policy which I propose is to divert to the state part of the funded income of society from the private recipients in whose hands it subserves no useful purpose, and to charge upon it precisely those burdens by which the weak are now crushed. Not by the rough method of expropriation, however, but by a method which is legal as well as ethical, and which entails no sacrifice of the future to present gain. The public capitalization of inheritance taxes would result in an accumulation of funds which would be gradual, and it would hence leave opportunity for the development of efficient means of administration. Under this plan public accumulations would constantly increase; but their increase could never become so great as to restrict the field of private property unless private accumulations should come to a standstill and opportunities for private exploitation should fail.

XVI

COMPREHENSIVE SCHEMES OF REFORM

"Social unrest" is not an exclusive and prized possession of Modern Industrialism. The voice of prophet, of seer, or reformer, has long been heard in the land, condemning the prodigal waste of the rich, the unjust distribution of "the common store of earthly wealth," the institutions which "create and perpetuate artificial class differences," and the "tangled scheme of human affairs" which we call life. Peculiar as are the voices condemning the society we know, they are like those of other times in demanding "a way out."

That all is not good is clearly realized by even the most stalwart of individualists. In devious ways they would guide us out of the social wilderness. One would leave "natural selection" to "eliminate the unfit," to free us from "the spawn of earth," and to make us a happier society by making us a better people. Another would substitute a large program, and a still larger spirit, of co-operation for "the sordid greed of competition" that "makes chaos of economic cosmos." The utopian dreams of co-operation, however, have recently been blighted by a cool analysis which shows that its promises are bright but not spectacular. Most prominent just now is the program of those wise in the lore of business who promise a transformed society through the magic of profit-sharing, "scientific management," and "welfare work." Give them control of technique, organization, and working conditions, and they will fill the land with plenty, the while raising labor to a pinnacle before undreamed of. Through their superimposed scheme the unwilling laborer is to be fed, clothed, housed, recreated, amused, educated, and introduced into a new paradise. If he fails to get what he wants—if industrial democracy fails of realization—he will at least get what is good for him. A supreme pre-wisdom will supplant his shortsightedness.

But the non-individualists are even more bent upon a transformation of industrial society. One program of reconstruction, a program inherent in the activity of a number of groups, rather than consciously formulated, is well under way. It is evident in the tendency toward government regulation—and even ownership—of railroads and capitalistic monopolies; in the proposal to choose our own population by a regulation of births and of immigration; in the attempt through state action to eliminate economic insecurity; in the growth of a spirit of group solidarity so apparent in unionism; in a formal modification of the "fundamental" institutions of society, and informal change through taxation and social convention. The extent to which this program will be realized—and whither it is tending—only the future can reveal.

A more drastic program, springing from a similar philosophy, is presented in socialism. Its strength lies partly in the "righteous indictment" which it can make against the "capitalistic organization of society," and partly in the sublime faith which the classes to which it appeals have in the efficacy of elaborate social machinery to eliminate social evils. The analysis of society made by most of its advocates is immediate, and loses sight of several "long-time" considerations, such as control of numbers and the accumulation of capital. Socialism, however, is losing its militancy. As its numbers increase, it is less and less disposed to "see red." In its latest manifestations it has become conventionally "respectable." It is hard to distinguish between the "evolutionary socialist" of today and the out-and-out progressive. The radical members are leaving the ranks of socialism to fight for "something worth while" with the syndicalists and "the revolutionary unionists." To find the radical spirit of protest we must turn to these latter organizations.

Meanwhile the war has been none too kind to "state socialism." An early English economist is reported to have said (there is no authentic written word) that he preferred to leave control to a God whose very existence he doubted rather than to men whom he knew well enough to call friends. Something of this disbelief in man is shared by those who discovered during the war that the agency of control so glibly referred to as "the government" is a many-headed personality, and that the persons are supplied in very different degrees with facts, knowledge of the industrial system, and straightforward purpose. The result is that the antithesis between centralization and initiative, flexibility, and enterprise is clearer to many more minds than once it was. This finds its reflection in the increasing prominence of "guild socialism" and the appeal of its ideas of decentralization and fear of bureaucracy to those who accept socialist ends.

It is impossible to predict the future of socialist doctrine. As our scheme of arrangements has changed, socialist doctrine has changed. Its early attack was upon the inadequacy of capitalistic production. The issue was later shifted to distribution. Thanks to arguments afforded by the war, its attack is once more upon production. One need not fear that socialism lacks flexibility to adapt its method and object of attack to an existing situation.

A. THE VOICE OF SOCIAL PROTEST

366. Privilege and Power

a) *Woe to the Idle Rich*¹

Woe to them that are at ease in Zion, and to them that are secure in the mountain of Samaria, the notable men of the chief of the nations, to whom the house of Israel come! Pass ye into Calneh, and see; and from thence go ye to Hamath the great; then go down to Gath of the Philistines: are they better than these kingdoms? or is their border greater than your border?—ye that put far away the evil day, and cause the seat of violence to come near; that lie upon beds of ivory, and stretch themselves upon their couches, and eat the lambs out of the flock, and the calves out of the midst of the stall; that sing idle songs to the sound of the viol; that invent for themselves instruments of music, like David; that drink wine in bowls, and anoint themselves with the chief oils; but they are not grieved for the affliction of Joseph. Therefore shall they now go captive with the first that go captive; and the revelry of them that stretched themselves shall pass away.

b) *The Daughters of Zion*²

Moreover Jehovah said, Because the daughters of Zion are haughty, and walk with outstretched necks and wanton eyes, walking and mincing as they go, and making a tinkling with their feet; therefore the Lord will smite with a scab the crown of the head of the daughters of Zion, and Jehovah will lay bare their secret parts. In

¹Amos 6:1-7 (750 B.C.).

²Isa. 3:16-24 (750 B.C.).

that day the Lord will take away the beauty of their anklets, and the cauls, and the crescents; the pendants, and the bracelets, and the mufflers; the headtires, and the ankle chains, and the sashes, and the perfume boxes, and the amulets; the rings, and the nose jewels; the festival robes, and the mantles, and the shawls, and the satchels; the hand-mirrors, and the fine linen, and the turbans, and the veils. And it shall come to pass, that instead of sweet spices there shall be rottenness; and instead of a girdle a rope; and instead of well set hair, baldness; and instead of a robe, a girdling of sackcloth; branding instead of beauty.

c) *Why the Lords?*³

BY JOHN BALL

By what right are they whom we call lords greater folks than we? Why do they hold us in serfage? They are clothed in velvet, while we are covered with rags. They have wine and spices and fair bread; and we oat-cake and straw, and water to drink. They have leisure and fine houses; we have pain and labor, the rain and the wind in the fields. And yet it is of us and our toil that these men hold their state.

d) *Government and Inequality*⁴

BY SIR THOMAS MORE

Is not that government both unjust and ungrateful that is so prodigal of its favors to those that are called gentlemen, or such others who are idle, or live either by flattery or by contriving the arts of vain pleasure, and, on the other hand, take no care of those of a meaner sort, such as ploughmen, colliers, and smiths, without whom we could not subsist? But after the public has reaped all the advantage of their service, and they come to be oppressed with age, sickness, and want, all their labors and the good they have done is forgotten, and all the recompense given them is that they are left to die in great misery. The richer sort are often endeavoring to bring the hire of laborers lower—not only by their fraudulent practices, but by the laws which they procure to be made to that effect; so that though it is a thing most unjust in itself to give such small rewards to those who deserve so well of the public, yet they have given those hardships the name and color of justice, by procuring laws to be made for regulating them.

Therefore, I must say that, as I hope for mercy, I can have no other notion of all the governments that I see and know than that

³ Quoted in Wallace, *Studies Scientific and Social*, II (1366?), 432.

⁴ Adapted from *Utopia*, 1516 (Cassell's National Library edition), p. 17.

they are a conspiracy of the rich, who, on pretense of managing the public, only pursue their private ends, and devise all the ways and arts they can find out; first, that they may, without danger, preserve all that they have so ill acquired, and then that they may engage the poor to toil and labor for them at as low rates as possible, and oppress them as much as they please.

e) *The Possibilities of Production*^{*}

BY RICHARD JEFFREY

I verily believe that the earth in one year can produce enough food to last for thirty. Why then have we not enough? Why do people die of starvation, or lead a miserable existence on the verge of it? We have millions upon millions to toil from morning till evening just to gain a mere crust of bread? Because of the absolute lack of organization by which such labor should produce its effects, the absolute lack of distribution, the absolute lack of even the very idea that such things are possible. Nay, even to mention such things, to say that they are possible is criminal with many. Madness could hardly go further.

f) *The Beginning of It All*^{*}

BY J. J. ROUSSEAU

The first man, who having enclosed a piece of ground, took thought to declare, "This is mine," and found people simple enough to believe him, was the real founder of civil society. How many crimes, wars, and murders, how much misery and horror would have been spared the human race if some one, tearing down the pickets and filling up the ditch, had cried to his fellows, "Beware of listening to that imposter; you are lost if you forget that the land belongs to none and its fruits to all."

367. "Progress and Poverty"

a) *In the Wake of Trade*^{*}

BY OLIVER GOLDSMITH

Ye friends to truth, ye statesmen who survey
The rich man's joys increase, the poor's decay,
'Tis yours to judge how wide the limits stand
Between a splendid and a happy land.

^{*} Quoted in Wallace, *Studies Scientific and Social*, II, 490-91.

^{*} "Discours sur l'inégalité," *Œuvres*, I (1754), 551.

^{*} *The Deserted Village* (1770), ll. 265-86.

Proud swells the tide with loads of freighted ore,
 And shouting folly hails them from her shore ;
 Hoards even beyond the miser's wish abound,
 And rich men flock from all the world around.
 Yet count our gains ; this wealth is but a name
 That leaves our useful products still the same.
 Not so the loss. The man of wealth and pride
 Takes up a space that many poor supplied ;
 Space for his lake, his park's extended bounds,
 Space for his horses, equipage, and hounds :
 The robe that wraps his limbs in silken sloth
 Hath robbed the neighboring fields of half their growth ;
 His seat, where solitary sports are seen,
 Indignant spurns the cottage from the green :
 Around the world each needful product flies,
 For all the luxuries the world supplies ;
 While thus the land, adorn'd for pleasure, all
 In barren splendour feebly waits the fall.

*b) When There Was a Frontier **

BY J. B. MC MASTER

The year 1786 in all the states was one of unusual distress. The crops had indeed been good. In many places the yield had been great. Yet the farmers murmured, and not without cause, that their wheat and their corn were of no more use to them than so many bushels of stones ; that produce rotted on their hands. That while their barns were overflowing, their pockets were empty. That when they wanted clothes for their families, they were compelled to run from village to village to find a cobbler who would take wheat for shoes, and a trader who would give everlasting in exchange for pumpkins. Money became scarcer and scarcer every week. In the great towns the lack of it was severely felt. But in the country places it was with difficulty that a few pistareens and coppers could be scraped together toward paying the state's quota of the interest on the national debt.

A few summed up their troubles in a general way, and declared the times were hard. Others protested that the times were well enough, but the people were grown extravagant and luxurious. For this, it was said, the merchants were to blame. There were too many merchants. There were too many attorneys. Money was scarce.

*Adapted from *The History of the People of the United States*, II. 180. Copyright by D. Appleton & Co., 1885.

Money was plenty. Trade was languishing. Agriculture was fallen into decay. Manufactures should be encouraged. Paper should be put out.

One shrewd observer complained that his countrymen had fallen away sadly from those simple tastes which were the life-blood of republics. It was distressing to see a thrifty farmer shaking his head and muttering that taxes were ruining him at the very moment his three daughters, who would have been much better employed at the spinning-wheel, were being taught to caper by a French dancing master. It was pitiable to see a great lazy, lounging, lubberly fellow sitting days and nights in a tippling house, working perhaps two days in a week, receiving double the wages he really earned, spending the rest of his time in riot and debauch, and, when the tax-collector came round, complaining of the hardness of the times and the want of a circulating medium. Go into any coffee-house of an evening, and you were sure to overhear some fellow exclaiming, "Such times! no money to be had! taxes high! no business doing! we shall all be broken men."

c) *Labor and Value*⁹

Wages should form the price of goods;
 Yes, wages should be all;
 Then we who work to make the goods,
 Should justly have them all;
 But, if their price be made of rent,
 Tithes, taxes, profits all,
 Then we who work to make the goods
 Shall have just none at all.

d) *The Poor in Manchester*¹⁰

BY FREDERICK ENGELS

The manner in which the great multitude of the poor is treated by society today is revolting. They are drawn into the large cities where they breathe a poorer atmosphere than in the country; they are relegated to districts which, by reason of the method of construction, are worse ventilated than any others; they are deprived of all means of cleanliness, of water itself, since pipes are laid only when paid for, and the rivers are so polluted that they are useless for

⁹Quoted in the article on "Chartism," *The Dictionary of Political Economy*, from *The Poorman's Guardian*, 1831.

¹⁰Adapted from *The Condition of the Working Class in England in 1844* (1848), pp. 49-53.

such purposes; they are obliged to throw all offal and garbage, all dirty water, often all disgusting offal and excrement into the streets, being without other means of disposing of them. As though the vitiated atmosphere of the streets were not enough, they are penned in dozens into single rooms, they are given damp dwellings, cellar dens that are not waterproof from below, or garrets that leak from above. Their houses are so built that the clammy air cannot escape. The view from the bridge is characteristic of the whole district. At the bottom flows, or rather stagnates, the Irk, a narrow, coal-black, foul-smelling stream, full of debris and refuse, which it deposits on the shallower right bank. Everywhere heaps of debris, refuse and offal; standing pools for gutters, and a stench which alone would make it impossible for a human being in any degree civilized to live in such a district. The whole side of the Irk is built in this way, a planless, knotted chaos of houses, more or less on the verge of uninhabiteness, whose unclean interiors fully correspond with their filthy external surroundings. In truth it cannot be charged to the account of these helots of modern society if their dwellings are not more cleanly than the pigsties which are here and there to be seen among them. My description is far from black enough to convey a true impression of the filth, ruin, and uninhabiteness, the defiance of all considerations of cleanliness, ventilation, and health which characterize this district.

*e) Packingtown as a Residential Section*¹¹

BY A. M. SIMONS

From the general air of hoggishness that pervades everything from the general manager's offices down to the pens beneath the buildings and up to the smoke that hangs over it all, the whole thing is purely capitalistic. One's nostrils are assailed at every point by the horribly penetrating stench that pervades everything. Great volumes of smoke roll from the forest of chimneys at all hours of the day, and drift down over the helpless neighborhood like a deep black curtain that fain would hide the suffering and misery it aggravates. The foul packing-house sewage, too horribly offensive in its putrid rottenness for further exploitation even by monopolistic greed, is spewed forth in a multitude of arteries of filth into a branch of the Chicago River at one corner of the Yards, where it rises to the top and spreads out in a nameless indescribable cake

¹¹Adapted from *Packingtown*, pp. 2-19. Published by Charles H. Kerr & Co.

of festering foulness and disease-breeding stench. On the banks of this sluiceway of nastiness are several acres of bristles scraped from the backs of innumerable hogs and spread out to allow the still clinging animal matter to rot away before they are made up into brushes. Tom Carey, now alderman of this ward, owns long rows of some of the most unhealthy houses in this deadly neighborhood. These houses have no connection with the sewers, and under some of them the accumulation of years of filth has gathered in a semi-liquid mass from two to three feet deep. Shabbily built in the first place and then subjected to years of neglect, they are veritable death-traps. A cast-iron pull with the Health Department renders him safe from any prosecution.

f) *Hallelujah on the Bum*¹²

"O, why don't you work
Like other men do?"

"How in hell can I work
When there's no work to do?"

"O, I like my boss—
He's a good friend of mine;
That's why I am starving
Out in the bread-line.

Chorus:

"Hallelujah, I'm a bum,
Hallelujah, bum again,
Hallelujah, give us a handout—
To revive us again."

"I can't buy a job
For I ain't got the dough,
So I ride in a box-car,
For I'm a hobo.

"O, why don't you save
All the money you earn?"
"If I did not eat
I'd have money to burn.

"Whenever I get
All the money I earn,
The boss will be broke,
And to work he must turn."

368. Expanding Wants and Social Unrest

BY A CAPE COD FISHERMAN

Yes, that's the trouble. My father wanted fifteen things. He didn't get 'em all. He got about ten, and worried considerable because he didn't get the other five. Now, I want forty things, and I get thirty, but I worry more about the ten I can't get than the old man used to about the five he couldn't get.

¹²*Songs of the Workers*, pp. 34. Published by the *Industrial Worker*. The tune is "Revive Us Again."

B. THE BURDEN OF THE WAR

369. Costs in Treasure and Men¹³

	United States	Great Britain (Not Including Colonies)	France	Russia	Italy	Japan
Population.....	107,000,000	46,000,000	40,000,000	175,000,000	36,000,000	56,000,000
Treasure in dollars:						
National wealth.....	300,000,000,000	120,000,000,000	90,000,000,000	60,000,000,000	40,000,000,000	28,000,000,000
Wealth per capita.....	2,804	2,609	2,250	343	1,111	500
National income.....	60,000,000,000	15,500,000,000	12,000,000,000	7,000,000,000	7,500,000,000	2,600,000,000
Income per capita.....	561	337	300	40	208	46
National debt.....	24,321,021,051	36,183,000,000	36,000,000,000	28,216,000,000	12,600,000,000	13,000,000,000
National debt before war.....	1,283,044,346	3,448,000,000	6,400,000,000	4,816,000,000	2,815,000,000	1,300,000,000
Debt per capita.....	227.30	786.59	966.23	161.41	350.00	23.21
Debt per capita before war.....	12.33	73.36	100.23	27.52	35.00	4.64
Debt per cent of wealth.....	8.11	30.15	40.00	8.02	9.38	2.50
Debt per cent of wealth before war.....	.57	3.83	0.86	1.12	2.07	0.64
Interest on national debt.....	1,176,500,000	1,575,000,000	1,800,000,000	1,558,000,000	548,000,000	65,000,000
Interest on national debt before war.....	24,512,000	122,500,000	257,000,000	212,200,000	93,300,000	10,500,000
Interest ratio to national income.....	0.0611	1.11	15.00	22.26	7.31	8.00
Interest ratio to national debt.....	0.0011	1.11	3.43	2.12	2.07	0.64
Total cost in dollars.....	33,000,000,000	40,000,000,000	28,000,000,000	25,000,000,000	10,000,000,000	2,500,000,000
Total cost per capita.....	327.10	866.57	700.00	142.86	277.78	44.44
Total cost per cent of wealth.....	11.67	33.33	31.11	41.67	25.00	11.11
Total cost per cent of annual income.....	58.33	238.06	233.33	357.14	133.33	33.33
Men:						
Original man power ages 18-45.....	22,000,000	*12,000,000	9,000,000	34,000,000	8,000,000	10,500,000
Mobilized.....	4,272,521	*7,500,000	7,500,000	12,000,000	5,500,000	8,000,000
Men killed.....	75,820	*692,065	1,383,065	1,790,000	400,000	300,000
Per cent of total enlistments.....	1.77	*9.23	18.47	14.17	7.27	3.00
Wounded.....	201,847	*2,377,325	2,675,000	4,950,000	947,000	907,000
Per cent of total enlistments.....	4.72	*27.16	35.67	41.25	17.22	11.11
Captured or missing.....	8,668	*360,367	446,200	2,500,000	1,203,000	3,000,000
Per cent of total enlistments.....	.20	*4.80	5.95	20.83	25.33	3.00
Treasure in dollars:						
National wealth.....	6,000,000	7,500,000	7,500,000	5,000,000	5,000,000	65,000,000
Wealth per capita.....	833	266	2,000,000,000	1,000,000,000	1,331	80,000,000,000
National income.....	500,000,000	83	100,000,000	1,000,000,000	58,000,000	10,000,000,000
Income per capita.....	83	13	1,250,000,000	750,000,000	12	154
National debt.....	560,000,000	1,750,000,000	1,250,000,000	750,000,000	404,000,000	30,000,000,000
National debt before war.....	560,000,000	800,000,000	300,000,000	125,000,000	213,000,000	5,400,000,000
Debt per capita.....	93.33	433.33	166.66	150	80.80	600.00
Debt per capita before war.....	93.33	106.67	40	25	42.50	76.47
Debt per cent of wealth.....	11.20	15.00	15.00	3.00	48.75	6.50
Debt per cent of wealth before war.....	11.20	15.00	15.00	3.00	48.75	6.50
Interest on national debt.....	18,000,000	90,000,000	75,000,000	35,000,000	18,000,000	1,950,000,000
Interest on national debt before war.....	18,000,000	35,000,000	20,000,000	10,000,000	8,000,000	200,000,000

* Includes British colonies.

¹³ From *Peace and Its Price*, copyright 1919 by the Fire Companies Building Corporation.

370. The Economic Costs¹⁴

BY J. A. HOBSON

The material waste and destruction of this war, with its ever-increasing area of conflict, have been far greater, more various, and more widespread than would have been thought possible before the actual event. At the outset most economists in this and other countries predicted exhaustion of one or both belligerent groups before two years were passed. The actually available resources of every country have proved to be far greater than was supposed. What this country [England], in particular, has done amounts to an economic miracle. With some four million men taken from ordinary occupations for the fighting forces, and two more millions for munitions, we have been able somehow to maintain the ordinary productive operations of our country at so high a level as to provide food, clothing, vehicles, and innumerable other expensive articles for our own forces and a large surplus for our Allies; while our civil population as a whole has been living upon a somewhat higher level of material comfort than before.

There are those to whom the obvious explanation of the miracle is that we are living on our capital, and they insist that we shall have to pay afterwards for this necessary extravagance. Now living upon capital from the standpoint of a nation may mean one or the other of two things, or both. It may mean that we have destroyed, damaged, or diminished the plant, buildings, roads, stocks, money, which we possessed in this country before the war, together with the foreign securities which represented claims upon real wealth in other countries. Or it may mean that we have mortgaged abroad portions of the wealth we shall produce after the war, by obtaining upon credit foreign goods to supplement our war deficiencies. If either of these things has occurred, it will seem to involve a diminution in our national income after the war—a measure of poverty.

It is manifest that our war economy will have caused a letting down of most of those forms of fixed capital which can be let down without great immediate damage to their productive services. Repairs and renewals, both of public and private fabrics of a durable kind, have been postponed, industrial machinery and other plants have been injured by overwork and neglect. It is estimated that a sum of from 170 to 180 million pounds per annum represented industrial wear and tear and renewals, or approximately one-tenth of the industrial income of the nation. A considerable part of this expendi-

¹⁴Adapted from "Shall We Be Poorer after the War?" *Contemporary Review*, CXI, 43-47. Copyright by the Contemporary Review Co., 1917.

ture, no doubt, has been suspended —i. e., the work that would have gone for this purpose has been diverted into work for the production of immediately consumable wealth. This damage to future productive power is enhanced by a letting down of many stocks of materials, unfinished or finished goods, which in ordinary times constitute a reserve of national wealth to meet the sudden enhancements of demand, and to secure the required elasticity of trade. These stocks, both in this country and throughout the world, have been largely depleted to meet the urgent needs of the belligerent nations. Their reduction must rank as an expenditure out of capital which will have to be made good before trade can be fully restored. This expenditure of capital is probably the most serious incurred by this country. So far as the income-earning power of our capital is concerned, the letting down of plant and stock is the measure of the direct damage to capital due to the war. Against it may be set an estimate of the new engineering and other plants brought into existence, primarily for war requirements, but capable of adaptation to peace industries afterwards.

The large sale of American and other foreign securities, and the loans effected in the United States and in our Dominions, no doubt involve an expenditure of past capital and a mortgage of future resources. But regarded from the national standpoint, what has taken place may fairly be treated as a shifting of securities. We have sold securities and raised credits in America in order to make financial advances of at least equal magnitude to our Allies. The interest on this sum will represent a net reduction of the annual income of our nation available for distribution here so long as this method of payment is continued.

Summarizing the evidence we have cited, we may fairly conclude that the material capital of this country will emerge from the war not seriously damaged or diminished. Indeed, it may plausibly be argued that the better organization of industry for obtaining a fuller use of the existing plant—e.g., the introduction of a shifts system into processes where plant was lying idle for the greater part of the time—may almost compensate for the admitted loss by letting down fixed capital and stocks. In a word, the supply of available industrial capital for this country after the war will not be so greatly diminished as to necessitate a total output of industry appreciably lower than it was before the war.

How, next, will it fare with the other factors of production? Will the supply of labor be reduced by the ravages of war? The loss of life and the disablement will amount to a heavy total. Perhaps it may represent a million men, or one-sixth of those withdrawn from

ordinary civil occupations. But this would not mean a corresponding reduction of effective labor. There are several compensations here. First comes the stoppage of all British emigration during the war. At least half a million workers who would have gone abroad will have been kept at home. It may, indeed, be admitted that the tide of emigration after peace will carry away large numbers both of our civilians and of disbanded soldiers. But the pace of this movement will be restrained by reduced facilities and enhanced costs of transport, as well as by the lack of the money usually required to make emigration a success for men untrained in agriculture. Another compensation is to be found in the newly discovered and trained powers of women. Though many of the six hundred thousand who have already entered munitions and other industrial occupations will doubtless return to domestic work, the ranks of labor will be enlarged permanently, not merely by those who, having already entered, will remain, but by a constant flow of new female labor into occupations for the first time opened by the war. Women have discovered new aptitudes and new confidence in exercising them. Their status in industry has definitely and permanently risen. It is no mere question of numbers. Both for women and for unskilled men the artificial barriers which precluded them from learning and undertaking large numbers of skilled occupations have been broken down. After the war the proportion of workers, male and female, possessing approved skill in some productive process will be greatly increased. This, of course, is equivalent to an enlargement of the effective productive power of the nation. It may be concluded that the aggregate labor-power available after the war will be quite as great at that available in the summer of 1914, assuming that the war is not prolonged beyond next summer.

Business ability and enterprise in the organizing and employing classes ought to be enhanced rather than diminished by the lessons in adaptation and experimentation imposed by the stress of war needs. Rapid transformations of plant and premises, novel technical processes, revolutionary changes in finance, control, organization of labor have everywhere been shaking the easy-going, slack, routine ways and notions of employers. Thousands of them have been compelled for the first time in their lives to "look alive" and stir their intellectual stumps. The great revelation of what could be done to maintain and enhance productivity under the spur of national necessity can never perish from our minds. We now know that with the material and human resources at our disposal it is technically possible, when the war is over, to begin producing industrial wealth at a considerably

faster rate than it was produced three years ago. The great economies effected by reducing our railways to a single system are only one striking example of an economy of capital and labor which will certainly be conserved in the future.

371. The Ultimate Burdens¹⁵

It is difficult to appraise the real cost of war. A recital of the figures of war debts only serves to conceal the truth. On the purely material side, the best we can do is to ascertain the extent of the loss of new capital and the amount of depreciation of the existing industrial equipment of the national resources of a nation. On the human side, we can determine the number of casualties, but it is impossible to measure the different values to the community of those who are killed. A genius lost involves an immeasurable cost viewed in national terms. The loss of an ordinary soldier is relatively inconsequential.

But quite apart from the loss of life, war entails enormous sacrifices in human resources. The sacrifice in health of the men who have been for years in the trenches cannot be measured in terms of money, for there is no satisfactory method of reducing the values of human lives and human health to pecuniary terms. The war has also impoverished the people of many lands and this carries with it a real lowering in the standards of life. There is less food, bodies are less adequately protected with clothes and shelter, medical service is scarcer, and in general conditions are less conducive to healthful living. Future generations of Belgians, Roumanians, Poles, Russians, Turks, Armenians, and Persians, not to mention others, will pay the penalty of this generation of economic disorganization. Preventive measures can alleviate somewhat the future wretchedness which is the product of war, but it cannot eliminate it entirely. Children will be reared undernourished and without proper medical attention, entailing costs that will manifest themselves in succeeding ages. Moreover, the bodies of the mature population, under the intense strain of a long war, become less immune to the ravages of disease. The lowering of health standards and the lessening of human vitality tend to have viciously cumulative effects; for the war necessitates low standards of living, low standards of living cause low productivity, and low productivity in turn causes low standards of living for long years to come. Poland, for instance, has been impoverished by the war to an extent that renders it almost impossible to gain the

¹⁵An editorial, 1918.

initial momentum necessary to recuperation and to return to erstwhile living conditions.

Even in countries such as England and the United States, which do not bear the brunt of invasion, and where the economic organization is such as to prevent starvation, or even a serious lessening of national vitality, there are still serious costs to be reckoned with. The lowering of labor standards carries with it, unless our standards were false, serious impairment of efficiency as measured in terms of long-run national considerations. Much of the labor of women now used in factories will carry with it its meed of cost in shortened lives and in ill-health in the years to come. The increasing employment of children and the curtailment of education among the youth prevent a development of the full resources of the coming generation of manhood and womanhood. In a less obvious way there is a great social sacrifice involved in the diversion of energy from scientific pursuits, from social study and investigation, from art and literature, to immediate material pursuits of military importance. The sort of life which conditions the elements of genius and originality is almost prohibited, for genius and originality can usually ripen only amid leisure; the world of ideas and values out of which an improving society eventually comes is almost at a standstill during the war.¹⁶

Another of the immeasurable costs of war lies in the fact that war arrests the training of the future leaders of a nation. Business responsibilities, and the necessity of keeping the home fires burning, make it impossible to send a large proportion of the mature men of a nation to war. It is the youth who must bear the brunt of the conflict. A nation is thus stripped of the services of those who would naturally be the future leaders in community and civic enterprise. Even those who return, the year spent in the military service have cost in many instances the labor and study which otherwise would have been spent in cultural, technical, and vocational training, and hence it tends to lessen their efficiency for leadership in the future. This is doubtless offset to some extent by training which the war itself offers in developing alertness and resourcefulness; but the specialization of the present war coupled with the predominance of trench warfare probably renders such training less valuable than in former wars. Particularly is this true in view of the fact that the social phenomena of the complicated world of today require training and

¹⁶This of course does not apply to experiments in governmental control of industry. It is possible, too, that the inventions called forth for use in the war may result in great ultimate value for times of peace. The statement has been made, however, by those in position to know that few great inventions have thus far come from the laboratories of war.

study of a very different sort from what was required for leadership under more primitive conditions of existence.

The war affects the temper and character of life in many ways. It profoundly modifies the habits, practices, customs, and ideals of the civilian population as well as of those actively engaged in the conflict. Some of these changes are bad, many of them are good, and it is possible that the ultimate results in the way of new social values may quite offset the immediate losses occasioned by war. It is impossible to make at this time a full recital of the changes which the war has wrought in our social and economic life, but they are everywhere in evidence. For instance, we have become reconciled, at least for the period of the war, to a control of industrial activities on the part of the government which would have been unthinkable in this individualistic country only two years ago. Not all of this will be retained in the peace which is to follow, but it is evident that we will have a much larger measure of governmental direction than we have had in the past. Much of the experience of the war in governmental control may be utilized in ways that will promote long-run welfare in the years of peace. For instance, it appears that the federal organization of the labor market which the war has effected is a piece of machinery so essential to the successful working of our industrial system that it will never be given up. We have also come to appreciate more fully than before the importance of large national production, and a useful distinction has been drawn between essentials and nonessentials, which may prove serviceable in peace as well as in war.

A subtle change which the war has wrought is to be found in the increasing number of women employed in industry. Their active participation in the affairs of a world-wide economic society makes a return to the old-fashioned cloistered American home almost impossible. The situation carries with it far-reaching implications in the matter of family ideals and the organization of domestic life around the hearthstone. Who can say whether this will lead to ultimate gains or to ultimate losses?

These are but a few examples of the many changes which the war is effecting. They relate not only to the elements of our life and its organization but also to its ideals. Our standards of judgment are very different from what they were before the war and since values and costs can be measured only in these social standards, it is impossible to make an accurate statement in quantitative terms of the ultimate costs of the war. Indeed, in view of these changing stand-

ards it is impossible to tell whether, all factors considered, and looking into the far distant future, the war has entailed a net cost to society. It all depends upon which scheme of things one prefers in life.

C. STATE SOCIALISM

372. The Economic Failure of Capitalism¹⁷

BY J. RAMSAY MACDONALD

Commercialism is a phase in the evolution of industrial organization, and is not its final form. It arose when nations were sufficiently established to make national and international markets possible, and it created classes and interests which separated themselves from the rest of the community and which proceeded to buttress themselves behind economic monopolies, social privileges, political power. The new industrial régime supplanted feudalism when the historical work of feudalism was done and it had ceased to be useful, and proceeded to build up a method of wealth production and distribution regulated by nothing but the desire for individual success and private gain. The new power lost sight of social responsibilities and social coherence. The interests of the individual capitalist, of the class of capitalists, of the property owners, were put first, and those of the community as a whole were subordinated. It was hoped, that by the individual capitalist pursuing his own interest national well-being would be served. The error soon reaped its harvest of misery, when women and children were dragged into the factories late in the eighteenth and early in the nineteenth centuries, when people were gathered into foul industrial towns, and when only human endurance limited the length of the working day. So separate had become the interests of the nation from those of the propertied classes that the latter found profit from the degradation and deterioration of the population. It mattered not to the cotton owner of Lancashire a hundred years ago what became of the children who were working in his factories, or later on, what became of the women who took their places. When one "hand" died another "hand" was ready to step into his place, and whether his life was long or short, sad or merry, the machines which he tended spun out their enormous profits, and the owner saw no reason to believe that the day of his prosperity was short.

The system certainly solved the problem of production. Under its whips and in search of its prizes, mechanical invention proceeded

¹⁷*The Socialist Movement*, pp. 94-99. Copyright by Henry Holt & Co. and Williams & Norgate, 1911.

apace, labor was organized and its efficiency multiplied ten, twenty, an hundred fold. Statistics in proof of this live with the wonder that is in them. That twenty men in Lancashire today can make as much cotton as the whole of the old cotton-producing Lancashire put together; that 1,000 shoe operatives in Leicester can supply a quarter of a million people with four pairs of boots a year; that 120 men in a mill can grind enough flour to keep 200,000 people's wants fully supplied, seem to come from the pages of romance rather than from the sober history of industry. Commercialism has written those pages, and they are its permanent contribution to human well-being.

As time went on, however, it was seen that this wonderful system of production was quite unable to devise any mechanism of distribution which could relate rewards to deserts. Distribution was left to the stress and uncertainty of competition and the struggle of economic advantages. The law of the survival of the fittest was allowed to have absolute sway, under circumstances which deprived it of moral value. The result was that national wealth was heaped up at one end over a comparatively small number of people and lay thinned out at the other end over great masses of the population. At one end people had too much and could not spend it profitably, at the other end they had too little and never gained that mastery of things which is preliminary to well-ordered life. Moreover, even many of those who possessed held their property on such precarious tenure that possession gave them little security and peace of mind. Prosperity was intermittent both for capital and labor.

Then conscious effort to rectify the chaos began to show itself. The national will protected the national interests through factory and labor legislation, and at the same time the chaos within the system was being modified by the life of the system itself. Competition worked itself out in certain directions and co-operation in the form of trusts came to take its place, as nature turns to hide up the traces of war in a country that has been fought over. This new organization is more economical and may steady to some extent the demand for labor; but it means that economic power is being placed in the hands of a few. That is too dangerous in the eyes of the Socialist. Its operation is too uncertain. From his very nature the monopolist is an exploiter. He grasps the sceptre of state, as well as the sceptre of industry. He sits in Parliament as well as in the counting-house. He becomes a powerful citizen as well as a masterful captain of industry. He raises in a most acute form the problem of how the community can protect itself against interests being created round its

exploitation and enslavement. Competition solves its own problems and leaves those of monopoly in their place.

Surveying the same field with an eye on the moral fruits which it has borne, the Socialist once more discovers weeds in plenty. The familiar methods of adulteration and of all forms of sharp dealing, both with work-people and with customers, pass before his eyes in disquieting masses. Honesty on this field is not the best policy. Materialist motives predominate. Birth and honor bow to wealth. Wealth can do anything in "good" society, today—even to the purchase of wives as in a slave market. A person may be vulgar, may be uncultured, may be coarse and altogether unpleasing in mind and manner but, if he has money, the doors of honor are thrown open to him, the places of honor are reserved for his occupation. The struggle for life carried on under the conditions of commercialism means the survival of sharp wits and acquisitive qualities. The pushful energy which brings ledger successes survives as the "fittest" under commercialism. Capitalism has created a rough and illworking mechanism of industry and a low standard of value based upon nothing but industrial considerations, and it has done its best to hand over both public and private values to be measured by this standard and to be produced by this mechanism.

But the controlling influences which have been brought to bear upon it—both those of a political character from without and those of an industrial character from within—are the foreshadowings of a new system of organization. Commercialism lays its own cuckoo egg in its nest. Every epoch produces the thought and the ideals which end itself. Like a dissolving view on a screen, commercialism fades away and the image of Socialism comes out in clearer outline.

373. The Central Aim of Socialism¹⁸

BY THOMAS KIRKUP

The central aim of socialism is to terminate the divorce of the workers from the natural sources of subsistence and of culture. The socialist theory is based on the historical assertion that the course of social evolution for centuries has gradually been to exclude the producing classes from the possession of land and capital, and to establish a new subjection, the subjection of workers who have nothing to depend on but precarious wage-labor. Socialists maintain that the present system leads inevitably to social and economic anarchy, to the degradation of the working man and his family, to the growth of vice

¹⁸Adapted from *A History of Socialism*, pp. 8-12. Copyright by Charles Scribner's Sons, 1900.

and idleness among the wealthy classes and their dependents, to bad and inartistic workmanship, to insecurity, waste, and starvation; and that it is tending more and more to separate society into two classes, wealthy millionaires confronted with an enormous mass of proletarians, the issue out of which must either be socialism or social ruin. To avoid all these evils and to secure a more equitable distribution of the means and appliances of happiness, socialists propose that land and capital, which are the requisites of labor and the sources of all wealth and culture, should be placed under social ownership and control.

In thus maintaining that society should assume the management of industry and secure an equitable distribution of its fruits, socialists are agreed; but on the most important points of details they differ very greatly. They differ as to the form society will take in carrying out the socialist program, as to the relation of local bodies to the central government, and whether there is to be any central government, or any government at all in the ordinary sense of the word, as to the influence of the national idea in the society of the future, etc. They differ also as to what should be regarded as an "equitable" system of distribution.

Still, it should be insisted that the basis of socialism is economic, involving a fundamental change in the relation of labor to land and capital—a change which will largely affect production, and will entirely revolutionize the existing system of distribution. But, while its basis is economic, socialism implies and carries with it a change in the political, ethical, technical and artistic arrangements and institutions of society, which would constitute a revolution greater than has ever taken place in human history, greater than the transition from the ancient to the mediaeval world, or from the latter to the existing order of society.

In the first place, such a change generally assumes as its political complement the most thoroughly democratic organization of society. Socialism, in fact, claims to be the economic complement of democracy, maintaining that without a fundamental economic change political privilege has neither meaning nor value.

In the second place, socialism naturally goes with an unselfish or altruistic system of ethics. The most characteristic feature of the old societies was the exploitation of the weak by the strong under the systems of slavery, serfdom, and wage-labor. Under the socialistic régime it is the privilege and duty of the strong and talented to use their superior force and richer endowments in the service of their fellow-men without distinction of class, or nation, or creed. In the

third place, socialists maintain that, under their system and no other, can the highest excellence and beauty be realized in industrial production and in art; whereas under the present system beauty and thoroughness are alike sacrificed to cheapness, which is a necessity of successful competition.

Lastly, the socialists refuse to admit that individual happiness or freedom or character would be sacrificed under the social arrangements they propose. They believe that under the present system a free and harmonious development of individual capacity and happiness is possible only for the privileged minority, and that socialism alone can open up a fair opportunity for all. They believe, in short, that there is no opposition whatever between socialism and individuality rightly understood, that these two are complements the one of the other, that in socialism alone may every individual have hope of free development and a full realization of himself.

374. The Transition to the Socialist State¹⁹

BY O. D. SKELTON

The first problem that faces the socialist—how catch the hare—is primarily a question of tactics, but its solution largely determines the character and extent of the difficulties facing the collectivist commonwealth at the outset. Is the capitalist to be expropriated without indemnity, or to be offered compensation? The earlier hot-blooded demand for the expropriation of the robber rich without one jot of payment is now heard more rarely in the socialist camp. This attitude was consistent with the catastrophic view of social evolution, the view that the revolution would be “an affair of twenty-four lively hours, with individualism in full swing on Monday morning, a tidal wave of the insurgent proletariat on Monday afternoon, and socialism in complete working order on Tuesday.” But in these post-Darwinian days this naive expectation is untenable. With the growing admission that the new order must be established by degrees, it is seen that it would be impossible to expropriate certain capitalists and leave the rest in undisturbed possession. Further, forcible expropriation without indemnity would be impossible; even were the great majority of the manufacturing proletariat won over to the policy, they could scarcely hope to overcome the determined resistance of the millions of farmers and the urban middle class.

If the other horn of the dilemma is then unanimously chosen, and the capitalists bought out at one hundred cents on the dollar, how is

¹⁹Adapted from *Socialism: A Critical Analysis*, pp. 182-84. Copyright by Hart, Schaffner & Marx, 1911.

the condition of the poorer classes one jot improved? There will be heaped up an immense debt, a perpetual mortgage on the collective industry; rent and interest will still remain a first charge, still extract "surplus labor" from the workers. Even if collectivist management were to prove every whit as efficient as capitalistic, the surplus for division among the workers would not be increased beyond that available today. Indeed, it would be diminished. Today a great part of the revenue drawn in the shape of rent and interest is at once recapitalized, and makes possible the maintenance and extension of industry. A socialist régime could not permit the paid-off capitalists to utilize their dividends in this manner, increasing their grip on industry; they would be compelled to spend it in an orgy of consumption. All provision for capital extension would therefore have to come out of what was left of the national dividend. The last state would be worse than the first.

Recognizing this, various socialists have proposed, once the capital has been appropriated, to put on the screws by imposing income, property, and inheritance taxes which will eventually wipe out all obligations against the state. In other words, they would imitate the humanitarian youngster who thoughtfully cuts off the cat's tail an inch at a time, to save it pain. Doubtless there are, within the existing order, great possibilities of extension of such taxes for the furtherance of social reform. Possibly our withers would be unwrung if the socialistic state confiscated the multimillionaire's top hundred million by a progressive tax. But the fortunes of the multimillionaires, spectacular as they are and politically dangerous as they are, form but a small proportion of the total wealth. So soon as the tax came to threaten the confiscation of the small income as well as the great, the matter would again become one of relative physical force.

375. Socialism and Inequality²⁰

BY N. G. PIERSON

Under state socialism, pure and simple, the government of the country would assume the ownership of the instruments of production. We take it that this end might be achieved in the following manner. Just as at the present it already owns the postal system, just as in certain countries it already owns and works the railways, manufactures cigars and matches, so it might successively assume the ownership, and undertake the working of all factories and work-

²⁰Adapted from *Principles of Economics*, II, 88-91. Copyright by Macmillan & Co., 1902.

shops, all means of transport, farms, fisheries, warehouses, and shops. In order to be able to form by degrees a staff of properly qualified officials, the state would have to be careful not to proceed with undue haste. Beginning with those branches of industry, in which no great experience or intelligence was required, it would have to proceed step by step in extending the sphere of its operations, and would have to be content if, at the end of sixty or a hundred years, it had succeeded in bringing the whole of production within that sphere. From this, however, it follows that the transfer would necessarily have to be effected on terms of adequate compensation to the present owners. We are now leaving questions of equity entirely out of consideration, and regarding only the economic aspects of the question. During the time when the state was engaged in appropriating the instruments of production, there should be no disturbances of a nature to occasion direct distress, and such disturbances would be inevitable where sentence of confiscation was hanging like a sword of Damocles over the head of every capitalist for a number of years. The more it became evident from experience that the danger was real and no mere bogey, the worse would things grow. People would become much less inclined to save, and much more disposed to squander. The properties which the state was to take over would ultimately have got into the most melancholy condition of decay, and habits of neglect and recklessness would have become general and would be slow to disappear.

A state, which meant to become socialist, would have to do one of two things: if it offered no full compensation, it would have to take over the whole production in a very short period of time; if, on the other hand, it meant to take over the various branches of production by degrees, it would be unable to escape the necessity of offering compensation. The former alternative would be impossible, even in such a small country as Holland. The second alternative would, therefore, have to be chosen on purely economic grounds, apart from all considerations of justice. The compensation would have to be such as would be deemed sufficient by the recipients themselves, otherwise it would fail in its object. It has been suggested that the compensation might be paid in thirty or fifty annuities. Certainly this system, like many another, could be applied; but we must clearly understand that everything which reduced the compensation would diminish the care given to such goods as the state had not yet appropriated. And it would be of the utmost importance that this care should not be relaxed, but should continue unabated up to the very end.

It would of course be possible to create a certain inducement for the owner not to neglect his property, by providing that the number or the amount of the annual payments made by way of compensation should depend upon the state of the property at the time of its transfer to the government; it is very much to be questioned, however, whether this would prove a sufficient inducement. Everyone would compare the actual advantage that accrued from saving the expense of upkeep with the possible disadvantages of the annual payment system, and it is easy to judge what the result of the comparison would be in most cases; more especially if the payments took a form which did not commend itself to the owner, or if there were any reason to suppose that the socialist state might not fulfill its obligations.

We look further into the future; sixty, or, say, a hundred years have passed; what condition of things do we see now? What has changed and what has not?

The principal survival is the inequality, the very thing that some people found most difficulty in submitting to in the past. There are no longer any merchants, shipowners, or manufacturers, there are no landowners or bankers; but, unless the annuity system of compensation has been adopted, we find, instead, a very large number of holders of government stock, so that there are as many owners of property as before. This class will remain and increase. For the socialistic state will have recognized—if not at once, then after being taught by bitter experience—that with growth of population, capital also must grow, and that it must grow even more rapidly than the population. The state will therefore have to encourage thrift by paying a certain rate of interest on all savings entrusted to its keeping. It will have to maintain the law of inheritance; for there can be no strong incentive to save, unless goods for consumption and claims in respect of debt can be handed down from one generation to another. We do not know if this is quite compatible with the socialistic system, but we do know that it is absolutely necessary, since the need for capital will always remain, no matter on what lines society may be organized.

The inequality thus remains; only certain of its causes disappear. Fortunes can no longer be accumulated in commerce or industry, nor does increased demand for agricultural or building land tend any longer to enrich the few at the expense of the many. But gambling on the stock exchange will *not* have disappeared. Even though the compensation should have taken the form of terminable annuities, it would be many years before all the bonds establishing their holders' claims to such annuities had disappeared, and it is

probable that in a socialistic state these bonds would be subject to considerable fluctuations in the market. Even if all the annuities in the country itself were to have expired, there would still, no doubt, be bonds of other countries to speculate in. Besides, there will never be wanting things to serve as the subject of betting and gambling transactions. If any one expects that the socialistic state will be able to get rid of *these* causes of inequality, his optimism must be rather extravagant.

376. Socialism and the Factors of Production²¹

In fervid attempts to correct the inequalities in distribution, we are very likely to overlook the social importance of production. Only what is produced can be distributed; consequently the larger the production, the greater the average distributive share. Therefore, before a scheme of social reform can win our approval, it must show either that it will not decrease production, or that the decrease will be more than balanced by gains in the distributive system. Production must not be overlooked.

The amount of the "social dividend" is contingent, among other things, upon the proportion maintained between the factors of production. The greatest steps in material progress have been associated with a decrease in the amount of labor used in proportion to the non-human elements in production. The economic importance of the Black Death lies in its decrease of the population; of the settlement of America, in its increase of natural resources; and of the industrial revolution in its increase of accumulated capital. In the "socialistic future" the state will find itself in the "stage of diminishing returns"; for the cry for socialism will remain an unheeded wail so long as "increased returns" yield abundance. Relief from the pressure of population on resources cannot be found in the utilization of new lands, for no new continent will be left for exploitation. As a result the maintenance of a high standard of living can be achieved only, either by a strict limitation of numbers, or by an increase in capital. It is necessary, therefore, to inquire what influence socialism is likely to have upon the increase or decrease of these factors of production.

To be quite fair, let us assume that socialism, once achieved, will realize the dreams of its advocates: that it will substantially reduce the inequalities in the ownership of wealth, and materially increase the incomes of the classes at the bottom. Granted a temporary increase, the important question is whether these incomes can

²¹An editorial, 1915.

remain permanent. We have no reason for thinking that socialism will make us creatures of different passions, and that in this ideal state maids will cease to look fair to youths. The larger income will make marriage possible to many who cannot now "afford it." For others marriage will be possible at earlier ages. The result will be an increase in the birth rate. Likewise the larger incomes and the temporarily better way of living should mean for a time a decrease in the rate of infant mortality. Both causes would tend to increase the number of laborers in the next generation, to lower the margin of industry, and to establish lower rates of wages, and lower standards of living. There is no reason why this tendency should not be continued until wages and standards were as low as—or lower than—under the older system. The conditions of the "workers" would, therefore, be improved only during the transition period during which the "surplus" wealth of the "classes" was being transferred. In the end the lower classes would be no better off. The only appreciable gain would be in a larger number of souls to be saved.

But what about the increase of capital? Under our present system thrift is voluntary, not compulsory. Society relies for its capital upon the temptation to accumulation offered by private property and by inheritance and the opportunity for saving residing in the unequal distribution of income which showers upon the privileged few more than they can spend and forces large aggregates of wealth to be reinvested in the productive process. A stratifying society presents ideal conditions for the accumulation of capital. Democratic equality and rigid class distinction are alike inimical to the rapid piling up of productive wealth. However, if individual thrift proves inefficient, the socialist state is in position to substitute compulsory thrift. Let us see what use a socialistic society can make of each of these methods.

Voluntary thrift would not suffice. If no interest were offered on savings, and moral encouragement alone was used, the tangible wealth accumulated would be negligible. If interest were offered, either by a payment on bank deposits or by the sale of interest-bearing bonds, some capital would be formed. But if inheritance were not allowed, the disposition to spend would increase with advancing years, and a rather high rate of interest would be necessary to secure adequate results. If inheritance were allowed, the system would be very similar to our own. In fact these methods involve making use of the individualistic incentives to thrift. But, without raising this question, the chief incentives to individual accumulation

would be absent. The large fortunes, which are the basis of so much current accumulation, would be no longer present. Again, the emphasis which a socialistic state would place upon life in the present, together with the greater equality in station and possessions, would cause expenditure closely to approach income.

Yet, even if individual thrift were inadequate, it must be admitted that the state could compel accumulation. Under a money economy, it could accomplish this, either by placing a tax upon the income of its citizens with the object of paying for the production of capital goods, or by raising the prices of consumptive goods and using the surplus in the same way. Without a money economy, the same object could be effected by a simple distribution of men between occupations turning out "present" and "future" goods. An analogy is found in the distribution of work in military societies, where a part of the labor force is sent out to fight and a part is kept at home to supply the fighters with munitions and provisions. But *could* the state enforce accumulation? Suffrage would be democratic. Democracy is a short-sighted and wasteful institution that is too much of a luxury for any country save one with large and virgin resources. Under our system little attention is given to the necessity of conserving the supply of capital. Recall, if you can, a consideration of this question in a political speech. Socialists show little appreciation of the rôle of capital in production. They fail to appreciate the importance of keeping up its supply. It seems extremely doubtful whether a party committed to an increase of capital, attended as such an increase necessarily is by a sacrifice in immediate consumption, could survive in a socialistic state. The opposing party, promising immediate prosperity and higher incomes—of course at the expense of the future—would be almost certain to enjoy popular support. Socialism, therefore, still further threatens to lower the margin of industry, wages, and the standard of living, by failure to induce a sufficient supply of capital.

It must not be denied that these difficulties are not insuperable. The lower classes may, in course of time, learn to control their numbers. The electorate may learn that individual and immediate gain must often be sacrificed if more ultimate social good is to be achieved. It may even learn the importance of keeping up the supply of capital. But as yet these lessons have not been learned. When society attains this measure of wisdom, the problem of the "classes at the bottom" will have lost much of its importance. The severity of their distress will have disappeared. The magic of socialism will be no longer necessary. In short, socialism is too individualistic and too short-sighted to meet our needs.

D. SOCIALIST ARGUMENTS FOR THE MASSES

377. Capitalism—A Vampire System²²

BY GEORGE E. LITTLEFIELD

1. Under capitalism, labor of brain and hand—human life-power—is a mere commodity. The world's workers are wage-slaves, compelled to sell time portions of themselves in the auction marts of competition to master bidders, lowering their price in the rivalry for jobs—for the opportunity to live—until it is just enough to equal the bare cost of living and reproduction—the iron law of wages.

2. Human labor, applied to natural resources, creates all value.

3. The unpaid portion of labor is surplus value or capital, with which the exploiting capitalists become masters of land, buildings, machinery, and raw material—all the means of production and distribution that labor depends upon for existence—therefore masters also of the wage-slaves.

4. The withholding of this surplus value from labor prevents the exploited workers from buying or consuming but a fraction of their full product—hence periodic over-production and consequent “hard times,” ever becoming more severe and chronic, until finally the whole capitalist system must smother in its own “prosperity.”

5. Capitalism is a vampire system. While it absorbs the labor and life of the competitive wage-slaves, the competing capitalist masters, preying one upon another, destroy each other until thus we have but a few monster vampires sucking the last dregs of vitality from a vastly increased proletariat, and finally comes the crisis—the sin of wageism is death—the collapse of the capitalist system. Labor unions and fake legislation for the strangling little capitalists (like the impotent railroad-control law) may palliate and prolong the present agony for a brief time, but the end is fatally doomed as is the diseased person who will not cut out his life-absorbing cancer. The huge modern plutocratic parasites, inflated with interest, rent, and profits, must finally expire with the death of what they feed upon—wageism. So the vampire patricians of ancient Rome sapped the plebeian and slave basis of their economic system and the empire fell in 476.

6. No system of civilization can advance or live when a feasting, reveling class drinks from the toilers' veins while riding on their backs. The knell of its own death is now being rung by capitalism which hypocritizes religion; perverts morality; makes the law unjust; prostitutes education; promotes war; corrupts politics; practices robbery, swindling, and gambling as a business; betrays friendship;

²²From *Capitalism to Socialism*, Flashlight Number 7, 1905.

sends love out street-walking and makes marriage mercenary; calls attic lodgings, slum cellars, corporation shacks, and hobo hovels "homes"; offers little children to the moloch of commercialism, and in the mad scramble for its dope incentive—dollars—materializes the rich, vulgarizes the well-to-do, and brutalizes the poor. Such is the result of the economic determinism of capitalism.

378. The Capitalist's Ten Commandments²³

BY W. WILLIS HARRIS

I. I am Capital, thy Master, that brought thee out of the Land of Liberty into a State of Slavery. Thou shalt not become thine own Master nor have any other Master but me.

II. Thou shalt not create any wealth, nor any likeness of any wealth that is in Heaven above, or that is in Earth beneath, or that is in the waters under the Earth, unless I can make a profit out of it. Thou shalt bow thyself down under my oppression and serve me, for I, Capital, am a jealous Master and visit the poverty of the fathers upon the children unto the third and fourth generations of those that create wealth for me, and show mercy unto the thousands of sycophants that love me and help me to share the spoils of Labor.

III. Thou shalt not produce wealth for thyself, for I, Capital, will not hold him guiltless that attempts to do so in vain.

IV. Keep the Labor Days, and sanctify them; as I, Capital, have commanded thee, lest I throw thee out of employment. Four and a half days thou shalt work for me, and one and a half for thyself. But the seventh day is a rest day for labor to recoup his strength. In it thou shalt not do any work, thou, nor thy son, nor thy daughter, nor thy wife, unless they be menial servants or minister to my comforts. And remember that thou art my slave, therefore do not attempt to enjoy thyself lest thou over-exert thyself and be unable to produce a profit for me next week.

V. Honor Landlordism and Usury, my co-partners, as I, Capital, have commanded thee, that thy days may be short in the Land in which thou art born.

VI. Thou shalt commit murder for my sake only.

VII. Thou shalt give thy daughters in prostitution and thy wife in adultery to me.

VIII. Thou shalt not steal, that being the right divine of Capital.

IX. Thou shalt bear false witness against thy neighbor—if he be a Socialist.

²³Adapted from *Progressive Thought*, II (No. 5, 1898), 13-14.

X. Thou shalt not desire the full products of thy labor, neither shalt thou covet the Land of thy birth, nor the stored-up wealth of past generations, nor the idleness, luxury, and privileges of the wealthy, nor anything that is in possession of the capitalist.

379. A Confession of Faith²⁴

I believe in Capital, the ruler of body and mind.

I believe in Profit, His Right-hand Bower, and in Credit, His Left-hand Bower, both of which proceed from and are one with Him.

I believe in Gold and Silver, which melted in the crucible, cut up into bullion, and stamped in the mint, make their appearance in the world as coin, but, after having rolled over the earth, and being found too heavy, descends into the vaults of the Banks, and reascends in the shape of Paper Money.

I believe in Dividends, in 5 per cents, 4 per cents and 3 per cents, and also in smaller per cents, that are shaved from notes.

I believe in National Debts, which secure Capital against the risks of trade, industry and the fluctuations of the money market.

I believe in Private Property, the fruit of the labor of others; and I also believe in its existence from and for all time.

I believe in the necessity of Misery—the furnisher of wage-slaves, and the mother of surplus labor.

I believe in the eternity of the Wage System, which setteth the workingman free from all the cares of holding property.

I believe in the extension of the hours of work, and in the Reduction of wages; and I also believe in the adulteration of goods.

I believe in the holy dogma: "Buy Cheap, Sell Dear," and thereby in the fundamental principles of our sacrosanct Church, as revealed by professional Political Economy. Amen!

E. GILD SOCIALISM

380. The Tendency in Workshop Control²⁵

BY W. GALLACHER AND J. PATON

Reconstruction.—We would have it clearly understood by all whom it concerns that labor has nothing to hope for and much to fear from industrial reconstruction, as it is being so freely expounded

²⁴Adapted from *Progressive Thought*, II (No. 5, 1898), 14.

²⁵A leaflet entitled "Towards Industrial Democracy: A Memorandum on Workshop Control," issued by the Paisley (Scotland) Trades and Labor Council, 1919.

at present by managing directors, statesmen, and official trade-union leaders. These gentlemen unite in declaring that there can be no return after the war to the old conditions: there must be "a complete break with the past." But the moment they get down to definite proposals it becomes evident that not only do they desire to preserve the very worst evils of the old system, but also to perpetuate as many of the restrictive regulations of war-time as the workers can be bribed to submit to. They are weaving snares to our feet in the form of co-partnership and profit-sharing schemes; their talk is not of freedom, but of security of employment, higher wages, and bonus; of harmony between employers and wage-earners; and of that less abomination, workers' welfare. The central figure of their brightest vision of the future is the profiteer, swollen with the dividends of increased production in the national interest. Behind him stretch his foundries and factories, their furnaces blazing, their machinery clanking by day and by night, manned by an army of sleek, docile, contented wage-slaves. In short, the capitalistic system of production having broken down, we are to be invited to build it up again, and re-establish it more securely than ever.

It would appear we must do our own reconstruction. It is very simple; there is only one thing to be done, and we can begin to do it now. It is to smash the wage system, and wreck the control of industry from the capitalists. Nothing else is any use at all. No "break with the past" is possible under capitalism. Though conditions be "reformed" out of all recognition, so long as wagery remains "the past" is with us still. The more it changes, the more it is the same thing.

Now the movement for the overthrow of capitalism by an abolition of the wage system must begin, not at Westminster, not in the trade-union executive, nor yet in the trade-union branches, but in the workshops. And it should take the form of the assumption by the workers of an ever-increasing share in control.

Not peace but a sword.—A share in control does not imply that the workers should enter into partnership or any sort of alliance with the employer, or incur joint responsibility with him, or be identified with him in any way. All forms of co-partnership—collective or individual—are based on the theory that the interests of the exploiter and exploited are identical, whereas they are, in fact, mutually antagonistic and irreconcilable. All such schemes are cunningly designed by a plausible appeal to individual cupidity to corrupt the worker and seduce him from collective action with his fellows. Co-partnership

multiplies profiteers and nourishes capitalism. And are we not out to destroy capitalism?

There must be no alliance or compromise with the employer. We shall be obliged, indeed, to negotiate with him through his representatives in the daily routine of the workshop, but not to espouse his interests, or to advance them in any way when it lies in our power to do otherwise. Our policy is that of invaders of our native province of industry, now in the hands of an arrogant and tyrannical usurper, and what we win in our advance we control *exclusively and independently*.

The first step.—The first step should be to establish in every industrial area, and for each industry, a system of workshop committees, as follows:

I. The works committee. In every work a works committee shall be elected by and from all the trade-unionists, skilled and unskilled, in the various departments. Each department numbering fifty workers or less shall have one representative on the committee, and an additional representative shall be granted for every succeeding fifty or part thereof.

II. Departmental committees. Each department shall appoint a sub committee to act in conjunction with, and under the direction of the works committee, and composed of the delegate or delegates to the works committee, together with two other trade-unionists in the department.

III. Functions of departmental committees: a) To see that all trade-union standards and agreements are strictly observed.

b) To represent the workers in all negotiations with the departmental management.

c) To keep a faithful record of all changes in shop customs or practices; a copy of all such records to be supplied to the works committee.

d) *To be the sole medium of contract between the firm and the workers*, and to exercise full bargaining powers on behalf of the men and women in the department in fixing time-allowance where premium bonus is in operation, and rates where piecework obtains. That is to say, all individual contracting as it is done at present between the workmen and the foreman or rate-fixer is to be eliminated. These negotiations shall in future be conducted only through the committee.

e) Departmental committee shall report to the works committee weekly.

IV. Functions of works committee: *a)* To see that all trade-union standards and agreements are strictly observed throughout the establishment, and to co-ordinate the activities of the departmental committees.

b) To represent the workers in all negotiations with the works management.

c) To consult with the works management in all cases where it is proposed to transfer men or women from craft to craft or from one department to another, or in any way to depart from established workshop practice, but to act in these matters only upon representations made by the departmental committees.

d) To keep a faithful record of all changes in shop customs and practices. A copy of all such records to be forwarded to and systematically filed by the Allied Trades Committee mentioned in clause V hereinafter.

e) The works committee shall report to the Allied Trades Committee weekly.

V. The Allied Trades Committee. In each district, and for each industry, an Allied Trades Committee shall be appointed, composed of the district officials of the trade-unions concerned, skilled and unskilled.

VI. Functions of the Allied Trades Committee. To co-ordinate the methods and activities of the Works Committees, and to act as court of appeal in all matters relating to conditions in the workshops in the district, and as sole intermediary between the workshop committees and joint bodies of employers—employers' federation and the like, state committees, government departments, etc.

NOTE.—When the workers have expelled the capitalists and taken over complete control of the entire industry, the main function of the Allied Trades or District Committee will be the effective and economical distribution of labor throughout the district, thus rendering superfluous anything in the nature of a state labor exchange. For the present, however, that function should be exercised with caution and restraint, and only where it will be clearly to the advantage of labor and not merely of the employer. Skilful manipulation of supply and demand of labor might be employed strategically over the area by an alert District Committee as a means of forcing up wages and strengthening the position of the Works Committees in particular firms.

In organizing "direct action" the committees will be invaluable.

Solidarity.—Such a system as we have sketched would promote solidarity amongst the workers by substituting collective for indivi-

dual bargaining, and amalgamation would be advanced by the simple method of ignoring craft and class prejudices and working together as though it were already an accomplished fact. Amalgamation cannot be brought about in any other way. Trade-union officials will never give an effective lead to a movement the success of which involves obscurity or social ruin for great numbers of themselves. But let the advantages of unity be clearly demonstrated in practice in the workshops, and the trade-union executives will soon be compelled by the overwhelming pressure of the rank and file to broaden the basis of organization. We shall have taken a long stride in the direction of industrial unionism.

The next step.—After all, committees are but machinery and solidarity a preliminary to action. Let us see, then, what the further policy of the committees will be.

Only the apathy or disloyalty of the workers themselves can prevent the Works Committees having in a very short time the experience and the authority to enable them to undertake in one large contract, or in two or three contracts at most, the entire business of production throughout the establishment. Granted an alliance with the organized office-workers—a development which is assured so soon as the Shop Committees are worthy of confidence and influential enough to give adequate protection—these contracts might include the work of design and the purchase of raw material, as well as the operations of manufacture and construction. But to begin with, the undertaking will cover only the manual operations. The contract price, or wages—for it is still wages—will be remitted by the firm to the Works Committee in a lump sum, and distributed to the workers by their own representatives or their officials, and by whatever system or scale of remuneration they may choose to adopt. If, as is unlikely, a great industrial union has by this time taken the place of the sectional unions, these financial intromissions may be carried out by its district executive (which would succeed the Allied Trades Committee) instead of by the Works Committee. A specially enlightened union of this sort would no doubt elect to pool the earnings of its members and pay to each a regular salary weekly, monthly, or quarterly, exacting, of course, from the recipient a fixed minimum record of work for the period.

An important feature of all contracts would be a clause limiting the responsibility of the committees to the actual business of production. That is to say, they would not be penalized for any stoppage of work from whatever cause, or held liable for losses arising therefrom. Nor would they accept responsibility for the smooth running

of the works, or for tranquility or efficiency in the industry as a whole.

The costs of control.—If it is contended that the scheme here outlined would make extensive inroads upon the time spent by members of the Committee at their ordinary occupations, and correspondingly heavy demands upon their fellow-workers who would have to make good their wages, the reply is that the time is spent in the interests of the workers throughout the industry, and the loss in wages should therefore be a direct charge upon trade-union funds. Further that, wisely directed and adequately supported, the committee will soon see to it that these charges are much more than made good to the workers in the form of increased wages and contract prices.

The point we have to grasp, however, is that we—the workers—*already pay the expenses of management in industry*, although we do not enjoy the privileges. For whence, if not out of the workers' earnings, come the wages of the army of managers, foremen, bullies, speeders-up, and spies who throng our modern industries? The number of these functionaries will be greatly reduced in a democratized workshop, and many of the species will be entirely eliminated. The employer on his side, having no longer any interest in control, will pay only a staff of inspectors to insure that the quality of the workmanship and material he is being supplied with is in keeping with the terms of the contract. The functions of management will have passed to the committees, and it will be their business to see that contract prices amply cover all the costs of these functions. The Conveners of the Works Committee and the Departmental Committee will gradually but surely drive out and supplant the works manager and departmental foreman. These Conveners then become full-time officials, and will, of course, be elected periodically like the rest of the Committee by their fellow-workers.

The knock-out blow.—Now it is true that even when we have got so far we shall not yet have destroyed the wage system. But we shall have undermined it. Capitalism will still flourish, but for the first time in its sordid history it will be in rank jeopardy. With such a grip on the industrial machine as we have postulated, and backed by the resources of a great industrial union, or it might even be a federation of industrial unions, the committee could soon force up contract prices to a point that would approximate to the full exchange value of the product, and put the profiteer out of business. In short, we shall have taken to our hands a powerful economic lever which, intelligently and resolutely applied, is easily capable of overthrowing the entire structure of capitalism, and substituting for it a real industrial democracy.

381. Labor Policy After the War²⁶

BY G. D. H. COLE

Along what lines ought the reconstruction of industry after the war to proceed? That there must be some reconstruction of industry we are all agreed; upon the lines along which reconstruction ought to proceed there is the greatest divergence of opinion. Perhaps we can best approach the criticism of the rival principles by a survey of the tendencies that are operating during the war period. I shall begin, then, with a dogmatic summary of these tendencies as they appear to me.

I. During the war labor received from the state a fuller recognition than ever before. This recognition has taken both agreeable and disagreeable forms. Labor has been consulted more than ever before, or, again, the labor leader has been called upon to assume a far greater degree of communal responsibility, and, at least in appearance, of communal power. On the other hand labor—and here I mean the actual manual workers—has been compelled to submit to rigorous limitation of its freedom of action, and to a far greater measure of state control than seemed possible before the war. Spiritually labor has both gained and lost: it has gained by the recognition of its influence and right to power; and it has lost by the inability to exercise that influence and right of power effectually. Materially, labor has once more gained and lost: it has gained because, on the whole, its earning power has increased, and because it will be difficult for wages to fall again to the pre-war level; and it has lost because the strength of trade unionism has been seriously impaired by the concessions made.

II. Capital, like labor, has received from the state a fuller recognition than ever before. From the beginning of the war the control of business men over government has increased, until now capitalist interests have to all intents and purposes a government of their own. Profits it is true have been limited, but only excess profits have been touched. Moreover, in return for these limitations, the capitalist has received both the protection of the state in his business and additional power over the workers he employs. Capitalism has become the state's accredited industrial agent, and state control has only served to strengthen the capitalist control over industry.

III. The state has intervened in industrial questions more than ever before. It has organized production and directed the productive

²⁶Adapted from an article published in the *New Age*, January, 1917, and reprinted in *Self-Government in Industry*, pp. 322-29. Copyright by G. Bell & Sons.

energies of the nation on an unprecedented scale. Throughout, however, the action of the state has taken such forms as to leave private capitalism not only the ownership of, but the management of, industry. The Munitions Department itself employs comparatively few persons. Only as buyer and seller has it directly assumed functions previously belonging to the capitalist. It has "controlled" the railways, but the companies still manage them. It is "controlling" the mines, but the mine-owners are to "carry-on as usual." In short, its control over capitalism has not taken the form of expropriation, and has not involved any drastic change in the management of industry. Again, in relation to labor, the state has assumed large new coercive powers. But much of this power is exercised, not directly, but in the new feudal form initiated in the Insurance Act, indirectly through the employer.

IV. From the point of view of society we may sum up the industrial effects of the war as these. Private capitalism, as we knew it before the war, has suffered a shrewd blow, from which it can hardly recover. But it has been replaced by none of the alternative systems which, before the war, seemed its only serious rivals. Collectivism, or the direct control of industry by the state; syndicalism, or the control of industries by the trade-unions; and national guilds, or joint control of industry by the guilds and the state, are as far off as ever. Instead we have at any rate the beginnings of a new industrial system, properly to be called state capitalism, under which private capitalism and profiteering continue with the moral and physical support of the state.

So far we have been merely diagnosing the existing disease. Now we must turn to the future. Here again it is most convenient to divide our subject matter into two main parts—dangers and possible remedies.

a) First among the dangers is the possibility that state capitalism may be permanent, or as permanent as a stage in industrial evolution can be. The danger is the more disturbing because labor may be brought to acquiesce in the new system. The capitalists and the capitalistic state may offer labor a junior partnership in industry. If such is accepted, goodbye for a while to our hopes of ending capitalism and the wage system. Labor may also be offered higher wages, shorter hours, and better material conditions. It may even, if the capitalists are wise, be offered these things in return for little apparent concession on the labor side. It will be enough to secure the triumph of capital if labor can be drawn into the capitalistic system and converted into an upholder of that which it has hitherto menaced.

An industrial truce, probably guaranteed by the state; new and subtle schemes of profit-sharing with the trade-union instead of the individual; bogus schemes of workshop control—these are the most dangerous because the most specious proposals which may come from the capitalist side as parts of a general scheme of reconstruction. Will labor, which has never been strong in a constructive ideal of its own, have the foresight and the moral force to resist these blandishments? We cannot venture to give an optimistic reply. Only the folly of capitalism, or a new-found wisdom in the ranks of labor, it seems, can save us from the régime of state capitalism after the war.

b) Yet we must not be pessimists if we can see that there are remedies to hand, if labor can only be persuaded to adopt them. State capitalism steals the thunder of collectivists and national guildmen alike. It does not give nationalization or state ownership and administration of industry; but it gives a form of state control which the foolish will mistake for nationalization. It does not give trade-union or guild control of industry; but it does offer a sort of control to the workmen in the workshop. National guildsmen, therefore, must formulate their alternative with a view to both these problems: to state control and nationalization and to proposals for workshop control.

1. To me it seems that the whole problem of nationalization has radically altered as the result of the war. We are faced with two immediate alternatives in industry—the continuance of private ownership backed by state protection under the guise of control or nationalization. Of the two I vastly prefer nationalization. Under either system the power of the state is arrayed on the side of the wage system; but the chance of developing the guild idea among the workers seems much greater under national ownership. By it we at least secure that great step toward our ideal—unified management; and if we do not abolish profiteering, we do at least crystallize it into the form of a fixed rate of interest. At some stage, we agree, the state must assume ownership of industrial capitalism; and it appears to me that it is far better that it should assume ownership now than that it should stand openly as the protector of private capitalism. In connection with all proposals the guild demand for joint control with the state must be pressed hard. But, even without that, collectivism is to be preferred to state capitalism.

2. I now come to the question of industrial control, of which workshop control is only a part and by no means the greatest part. The guild ideal is the control of industry by the guilds acting in conjunction with the state. It is not that of joint control by employers

and employed, and such joint control cannot even be a stage in the evolution of guilds. Joint control cannot subsist between the parties when one is trying to displace the other altogether, and our ideal is nothing less than the complete displacement of capitalism. The development of trade-unionism toward the guilds must therefore take the form, not of an acceptance of joint responsibility for the conduct of industry, but of increasing interference in the control of industry. Where a whole province of industrial management can be taken bodily out of the hands of employers and transferred to the workers, well and good; that is a stage in the evolution of national guilds. But until such complete transference can take place in any sphere, the action of the trade union must remain external and to that extent irresponsible.

Let us now apply these principles to workshop control. If workshop control means the assumption by the trade-union of the responsibility for the discipline and ordering of the workshop, well and good; but if what is meant is joint control of the workshop discipline by employers and employed, ill and bad. Actual suggestions, however, seem to point less to either of these things than to the adjustment of workshop conditions and grievances. What is to be the guildsman's attitude toward such proposals? It all depends. If it is to be acceptable, the Works Committee must be not a joint committee but two committees meeting for joint consultation. The workers' side must preserve its separate character and must be linked up with the organized machinery of the trade-union movement. The Works Committee must not be so much a legislative body passing laws for the work as a meeting of the management and the trade-unionists for adjusting conditions and relations in the workshop. In fact the trade-unionists must follow the path, not of joint responsibility for industry, but of collective interference with industry. The attitude must be the same in relation to proposals for joint action between employers and employees over areas wider than the single works. The maintenance of the strength and independence of trade-unionism must be in all things the first consideration. No immediate step that seems a gain, however great, must be taken if it involves, even in the smallest degree, a sacrifice of trade-union independence and strength.

These are the main general considerations which are present to my mind in relation to labor policy after the war. If they seem too largely negative, I must answer that we cannot hope for great positive advances while the standards of organization, leadership, and intelligence in the trade-union movement remain what they are today. We can only seek such changes as will reorganize trade-unionism

internally and equip it intelligently for the task of winning control. Viewed in the light of this immediate end does the policy put forward seem so negative after all? Workshop control, if it takes the form rather of interference than of responsibility, will afford the most valuable training the workers can have for their greater task, the more they learn to intervene, and the more continuous their intervention becomes, the more they will be learning how to control. Actual control they will win only when they have learned to exercise control; and they can have no better weapon in the conflict than a fitness for victory.

There are, of course, a thousand and one subsidiary problems. I have concentrated on the problem that seems fundamental. The real issue for society is whether industry is to continue its development along the line of autocratic control from above, or whether industrial autocracy is to be displaced by the industrial democracy of national guilds.

F. SOME RECONSTRUCTION PROGRAMS

382. A Business Program²⁷

Pivotal industries.—Conditions brought upon us by the European war make it of the highest importance that a number of industries should at once be developed in the United States. Large investments, both in capital and skill, have been placed in these enterprises. Upon the production of some of them, relatively small in themselves, the continuation of some of our largest industries has depended. Some of the recently developed industries have national importance in fields much broader than the markets of their products; for they may serve, for example, to promote scientific research, which will add to national efficiency, resources, and wealth in many ways.

It becomes essential, therefore, that the government should at once ascertain the industries which have been developed during the European war and those the maintenance of which are indispensable for the safety of our industrial structure and our military establishment. When these pivotal industries have been ascertained, means suitable to their nature and situations should at once be provided for their encouragement and preservation.

Industrial co-operation.—The war has demonstrated that through industrial co-operation great economies may be achieved, waste eliminated, and efficiency increased. The nation should not forget, but

²⁷Adapted from the resolutions on reconstruction passed by the War Emergency Congress of the United States Chamber of Commerce, which met at Atlantic City, December 4-6, 1918.

rather should capitalize these lessons by adapting effective war practices to peace conditions through permitting reasonable co-operation between units of industry under appropriate federal supervision.

It is in the public interest that reasonable trade agreements should be entered into, but the failure of the government clearly to define the dividing line between the agreements which are, and those which are not, in unreasonable restraint of trade, or to provide an agency to speak for it on application of these proposing to enter into such agreements in effect restricts both industry and the general public of its benefits. The conditions incident to the period of readjustment renders it imperative that all obstacles to reasonable co-operation be immediately removed through appropriate legislation.

Federal Trade Commission.—The Federal Trade Commission was created to make the administration of our trust legislation explicit and intelligible, and to provide “the advice, the definite guidance, and information” which business enterprise requires. The normal importance of the commission’s task is now tremendously increased by imperative need for whole-hearted and sympathetic co-operation between the government and industry especially during the readjustment period. The vacancies in the commission’s membership should be promptly filled with able men of broad business experience and clear vision prepared to assist actively in discharging these tasks along constructive lines.

Industrial relations.—The convention heartily endorses in letter and in spirit the principles of the industrial creed so clearly and forcibly stated in the paper read to it Thursday morning by Mr. John D. Rockefeller, Jr., and urges upon all units of industry where they may not be employed, the application of such principles.

Public works.—The development of public works of every sort should promptly be resumed in order that opportunities of employment may be created for unskilled labor.

Taxation.—The cessation of hostilities brings to business interests a feeling of deep concern in the matter of taxation. The problems of readjustment are made more difficult through inequalities in the present law. We believe, therefore, that in the consideration of amendments to the present act or the passage of new revenue legislation, the views expressed by organizations of commerce and industry should be taken into consideration. Ability to pay, inventory values, and proper reserves, together with careful survey of the amount of revenue required under the new conditions, are matters of vital importance to business interests of the nation during the readjustment period.

Inventories.—We urge that Congress should give grave consideration to the grave menace now facing all industry due to the fact that both raw materials and finished goods are carried in full measure to meet the extraordinary requirements of the government and of the people, and that in large part the stocks have been acquired at abnormal cost and are therefore carried into inventories at inflated values, thereby showing apparent profits which have not been realized, and which probably will never be fully realized. These are largely bookkeeping profits, and should not be used as a basis for taxation. We therefore recommend that any tax law shall provide that during present conditions the taxpayer shall be allowed to make a deduction from his apparent profit by way of a reserve for a subsequent shrinkage in the value of merchandise.

Railroads.—The Congress of the United States should speedily enact legislation providing for an early return under federal charters to their owners of all railroads now being operated by this government under federal regulations permitting the elimination of wasteful competition, the pooling of equipment, combinations or consolidations through ownership or otherwise in the operation of terminals, and such other practices as will tend to economies without destroying competition in service.

Means of communication.—We are opposed to government ownership and operation of telegraphs, telephones, and cables.

Merchant marine.—We recommend that the construction of a great merchant marine be continued and amplified, and that its operation under American control be kept safe by such legislation as may be necessary to insure its stability and its lasting value to American industries.

Public utilities.—Public utilities have faced difficult problems, which have been accentuated by conditions arising out of the war. The development and efficiency of such a utility as local transportation has immediate importance for every community. It is recommended that the Chamber of Commerce of the United States appoint a committee to investigate and study the question of local transportation as it relates to the control of rates and services, franchises, taxes, the attraction of capital into the business, and such other questions as the committee may find pertinent. Such a committee should report its recommendations to the board of directors of the National Chamber.

Water powers.—Industrial activity is dependent upon the available supply of power. A bill which would effect the development of hydro-electric power upon waterways and lands which are subject to federal jurisdiction is now before a committee of conference of

the two houses of Congress. It is important that federal legislation on this subject be enacted without delay.

International reconstruction.—In the war we have made common cause with the Allies. We should likewise make common cause with them in seeking the solution of the immediate problems of reconstruction. These problems peculiarly depend for their solution upon commerce. Raw materials and industrial equipment which we possess the Allies urgently require, that they may reconstitute their economic life. We should deal generously with them in sharing these resources. We must also provide them with credits through which they may make the necessary payments.

European commission.—The business men of the United States, having devoted their energies and resources toward winning the war, regardless of sacrifices or burdens, in support of the principles for which this country fought, appreciate the necessity of continuance of unremitting effort that the world may be restored to normal conditions as soon as possible and the blessings of peace be brought to all peoples. In the accomplishment of these results the highest efficiency of the great commercial and industrial powers of our own country and that of the Allied nations will be developed only through co-operative effort and common counsel.

In order, therefore, to contribute to the fullest toward the prompt solution of this problem the Chamber of Commerce of the United States is requested to enlist the fullest co-operation of national bodies devoted to the promotion of American commerce and particularly foreign trade, in the appointment of a commission representative of American business, which shall proceed without delay to Europe and establish machinery for the following purposes: (1) To study at first hand the reconstruction needs of European countries in conjunction with the business men of these nations in order to advise the business men of the United States as to how they may be most helpful in meeting the necessities of Europe and caring for the interests of American industry and commerce; (2) to be available to the peace delegates of the United States for any needed information which they may be able to present.

Foreign trade markets.—We strongly urge upon our government the vital necessity of developing our foreign trade through all appropriate means possible, in order that the production of industry may afford employment to wage-earners and prosperity to the nation.

South American relations.—It has long been the policy of this country to cultivate relations of close sympathy with the nations of the western hemisphere as expressed in the Monroe Doctrine. We

believe that these relations should be supplemented and strengthened by a vigorous development of our commercial and financial associations with our neighbors of North and South America. The government's control of shipping should be brought to the accomplishment of this purpose as soon as it is consistent with other urgent needs, and the work of the Pan-American Union should be continued and broadened in scope.

Mexico.—By provisions in a constitution adopted while much of the country was engaged in civil strife, and through subsequent legislation, Mexican authorities have threatened rights acquired by Americans in good faith, especially in minerals, including petroleum. Against threatened confiscation the American government made formal protests. The attitude taken by the American government is heartily commended as in accordance with obvious justice.

Education for foreign trade.—In the larger opportunities which are to be opened to American business men to play a part in the international commerce of the world the need will be felt for more men who are trained to a knowledge and understanding of the language, the business methods, and the habits of thought of foreign lands. We urge our industrials to take steps to provide opportunities to young men to obtain an education in the practices of overseas commerce and finance and in the practical uses of foreign languages. We call the attention of the government and of educators to this matter and ask that special efforts be made to supplement the valuable work already done and to open up every facility to the furtherance of a successful prosecution of this valuable work.

Cost accounting.—It is the sense of this convention that uniform cost accounting be adopted by industries.

National Trade Association.—The experiences of the war clearly demonstrated the value of national trade organizations and their service to the country as well as to industry. This conference heartily approves the plan of organizing each industry in the country in a representative national trade association and expresses the belief that every manufacturer, jobber, and producer of raw materials should be a member of the national organization in his trade and cordially support it by his work.

383. A Church Program²⁸

Women war workers.—One of the most important problems of readjustment is that created by the presence in industry of immense

²⁸Adapted from *Social Reconstruction: A General Survey of the Problems and the Remedies*, issued by the National Catholic War Council, 1919. This represents the attitude of the largest single religious body in this country.

numbers of women who have taken the places of men. Mere justice dictates that these women should not be compelled to suffer any greater loss than is absolutely necessary. One general principle is clear: No female worker should remain in any occupation that is harmful to health or morals. Women should disappear as quickly as possible from such tasks as conducting and guarding street cars, cleaning locomotives, and a great many other activities for which conditions of life and their physique render them unfit. Another general principle is that the proportion of women in industry ought to be kept within the smallest practical limits. If we have an efficient national employment service, if a goodly number of returned soldiers and sailors are placed on the land, and if wages and the demand for goods are kept up to the level which is easily attainable, all female workers displaced will be able to find suitable employment in other parts of the industrial field or in those domestic occupations which sorely need their presence. These women who are engaged at the same tasks as men should receive equal pay for the same amounts and qualities of work.

Present wage rates.—The general level of wages attained during the war should not be lowered. In a few industries wages have reached a plane upon which they cannot possibly continue. But the overwhelming majority should not be compelled to undergo any reduction in their rates of remuneration for two reasons: first, because the average rate of pay has not increased faster than the cost of living; second, because a considerable majority of the wage-earners in the United States, both men and women, were not receiving living wages when prices began to rise in 1915. In that year four-fifths of the heads of families obtained less than \$800, while two-thirds of the female wage-earners were paid less than \$400. Even if the present prices of goods should fall to the level on which they wages would not exceed the equivalent of a decent livelihood in the were in 1915—something unhopd for—the average present rate of case of the vast majority.

Even if the great majority of workers were now in receipt of more than living wages, there is no good reason why rates of pay should be lowered. After all a living wage is not necessarily the full measure of justice. All the Catholic authorities on the subject explicitly declare that this is only the minimum of justice. In a country as rich as ours, there are very few cases in which it is possible to prove that the worker would be getting more than that to which he has a right if he were paid something in excess of this ethical minimum. Why then should we assume that this is the normal share of almost the

whole laboring population? Since our industrial resources are sufficient to provide more than a living wage, why should we acquiesce in a theory which denies them this measure of the comforts of life?

Such a policy is not only of very questionable morality, but is unsound economically. The large demand for goods which is created and maintained by the high rate of wages and high purchasing power of the masses is the surest guarantee of a continuous and general operation of industrial establishments. It is the most effective instrument of prosperity for labor and capital alike. The only persons who would benefit considerably through a general reduction of wages are the less efficient among the capitalists and the more comfortable sections of the consumers. The wage-earners would lose more in remuneration than they would gain from whatever fall in prices occurred as a direct result of the fall in wages. On grounds both of justice and sound economics, we should give our hearty support to all legitimate efforts made by labor to resist general wage reductions.

The minimum wage.—We are glad to note that there is no longer any serious objection urged by impartial persons against the legal minimum wage. The several states should enact laws providing for the establishments of wage rates that will be at least sufficient for the decent maintenance of a family, in the case of all male adults, and adequate to the decent individual support of female workers. In the beginning the minimum wage for male workers should suffice only for the present needs of the family, but they should be gradually raised until they are adequate to future needs as well; that is, they should be ultimately high enough to make possible that amount of saving which is necessary to protect the worker and his family against sickness, accident, invalidity, and old age.

Industrial management.—It is to be hoped that the right of labor to organize and deal with representatives will never again be called into question by any considerable number of employers. In addition to this, labor ought gradually to receive greater representation in what the English group of Quaker employers call the "industrial" part of business management—"the control of processes and machinery; nature of products; engagement and dismissal of employees; hours of work, rates of pay, bonuses, etc.; welfare work, shop discipline; relations with trade unions." The establishment of shop committees working wherever possible with the trade-union is the method suggested by this group of employers for giving the employees the proper share in industrial management. There can be no doubt that a frank adoption of these means and ends by employers would not only promote the welfare of the workers but vastly improve the

relations between them and their employers, and increase the efficiency and productiveness of each establishment.

Socialism.—It seems clear that the present industrial system is destined to last for a long time in its main outlines. That is to say, private ownership of capital is not likely to be supplanted by a collectivist organization of industry at a date sufficiently near to justify any present action based on the hypothesis of its arrival. This forecast we recognize as not only extremely probable, but as highly desirable; for, other objections apart, socialism would mean bureaucracy, political tyranny, and helplessness of the individual as a factor in the ordering of his own life; and in general social inefficiency and decadence.

Main defects of present system.—Nevertheless the present system stands in grievous need of considerable modifications and improvement. Its main defects are three: Enormous inefficiency and waste in the production and distribution of commodities; insufficient incomes for the great majority of wage-earners; and unnecessarily large incomes for a small minority of privileged capitalists. The evil in production and in the distribution of goods would be in great measure abolished by the reforms that have been outlined. Production will be greatly increased by universal living wages, by adequate industrial education, and by harmonious relations between labor and capital, on the basis of adequate participation by the former in all the industrial aspects of business management. The wastes of commodity distribution could be practically all eliminated by co-operative mercantile establishments and co-operative selling and marketing associations.

The cure for them.—Nevertheless, the full possibilities of increased reduction will not be realized so long as the majority of the workers remain mere wage-earners. The majority must somehow become owners, at least in part, of the instruments of production. They can be enabled to reach this stage gradually through co-operative productive societies and co-partnership arrangements. In the former the workers own and manage the industries themselves; in the latter they own a substantial part of the corporate stock and exercise a reasonable share in the management. However slow the attainment of these ends, they will have to be reached before we can have a thorough, efficient system of production, or an industrial and social order that will be secure from the dangers of revolution. It is to be noted that this particular modification of the existing order, though involving to a great extent the abolition of the wage-system, would not mean the abolition of private ownership. The instruments of production would still be owned by individuals, not by the state.

The second great evil, that of insufficient income for the majority can be removed only by providing the workers with more income. This means not only universal living wages, but the opportunity of obtaining something more than that amount for all who are willing to work hard and faithfully.

For the third evil mentioned above, excessive gains by a small minority of privileged capitalists, the main remedies are prevention of monopolistic control of commodities, adequate government regulation of such public service monopolies as will remain under private operation, and heavy taxation of private incomes, excess profits, and inheritances. The precise methods by which genuine competition may be restored and maintained among businesses that are naturally competitive cannot be discussed here. But the principle is clear that human beings cannot be trusted with the immense opportunities for oppression and extortion that go with the possession of monopoly power. That the owners of public service monopolies should be restricted by law to a fair or average return on their actual investment has long been a recognized principle of the courts, the legislatures, and public opinion. It is a principle which should be applied to competitive enterprises likewise with the qualification that something more than the average rate of return should be allowed to men who exhibit exceptional efficiency. However, good public policy, as well as equity, demands that these exceptional business men share the fruits of their efficiency with the consumer in the form of lower prices.

Conclusion.—Neither the moderate reforms advocated in this paper, nor any other program of betterment or reconstruction, will prove reasonably effective without a reform in the spirit of both labor and capital. The laborer must come to realize that he owes his employer and society an honest day's work in return for a fair wage, and that conditions cannot be substantially improved until he roots out the desire to get a maximum of return for a minimum of service. The capitalist must likewise get a new viewpoint. He needs to learn the long-forgotten truth that wealth is stewardship, that profit-making is not the basic justification of business enterprise, and that there are such things as fair profits, fair interest, and fair prices.

384. A Labor Program²⁹

I. THE TASK OF SOCIAL RECONSTRUCTION

That the task of social reconstruction to be undertaken by the government ought to be regarded as involving, not any patchwork,

²⁹Adapted from the resolutions adopted at a conference of the British Labor Party, 1918. The resolutions omitted refer to matters of merely local or temporary importance. These resolutions should be compared with the

jarrymandering of the anarchic individualism and profiteering of the competitive capitalism of pre-war time—the breakdown of which, even from the standpoint of productive efficiency, the war has so glaringly revealed—but the gradual building up of a new social order, based not on internecine conflict, inequality of riches, and dominion over subject races or a subject sex, but on the deliberately planned co-operation in production, distribution, and exchange, the systematic approach to a healthy equality, the widest possible participation in power, both economic and political, and the general consciousness of consent which characterize a true democracy; and, further, in order to help to realize the new social order and to give legislative effect to the labor policy on reconstruction, this conference emphasizes the necessity of having in Parliament and the country a vigorous, courageous, independent and unfettered political party.

II. THE NEED FOR INCREASED PRODUCTION

That the conference cannot help noticing how very far from efficient the capitalistic system has proved to be, with its stimulus of private profit, and its evil shadow of wages driven down by competition often below subsistence level; that the conference recognizes that it is vital for any genuine social reconstruction to increase the nation's aggregate annual production, not of profit or dividend, but of useful commodities and services; that this increased productivity obviously is not to be sought in reducing the means of subsistence of the workers, nor yet in lengthening their hours of work, for neither "sweating" nor "driving" can be made the basis of lasting prosperity, but in the socialization of industry to secure (a) the elimination of every kind of inefficiency and waste; (b) the application both of the most honest determination to produce the very best, and of more science and intelligence to every branch of the nation's work; together with (c) an improvement in social, political, and industrial organization, and (d) the indispensable marshaling of the nation's resources so that each need is met in the order of, and in proportion to, its real national importance.

document entitled "Labor and the New Social Order," which was prepared by a subcommittee of the party. One section of this report is presented in reading § 387 below. It seems unnecessary to reprint the whole report, since it is already available in a supplement to the issue of the *New Republic* for February 16, 1918, in Clark, Hamilton, and Moulton, *Readings in the Economics of War*, pp. 646-66, in Elisha M. Friedman, *Labor and Reconstruction in Europe*, pp. 165-85, and in *Monthly Labor Review, Bureau of Labor Statistics*, VI, 63-83.

III. THE MAINTENANCE AND PROTECTION OF THE STANDARD OF LIFE

1. That the conference holds it of supreme national importance that there should not be any degradation of the standard of life of the population; and it insists that it is the duty of the government to see to it, that when peace comes, the standard rate of wages in all trades should, relatively to the cost of living, be fully maintained.

2. That it should be made clear to employers that any attempt to reduce the prevailing rates of wages or to take advantage of the dislocation of demobilization to worsen the conditions of labor, will lead to embittered industrial strife, which will be in the highest degree detrimental to the national interests; and the government should therefore take all possible steps to avert such a calamity.

3. That the government as the greatest employer of labor, should not only set a good example in this respect, but should also seek to influence employers by proclaiming in advance that it will not attempt to lower the standard rates or conditions in public employment, by announcing that it will insist upon the most rigorous observance of the fair-wage clause in public contracts, and by recommending every local authority to adopt the same policy.

4. That one of the urgent needs of social reconstruction is the universal application of the principle of the protection of the standard of life, at present embodied in the factories, workshops, merchant shipping, mines, railways, shops, truck, and trade-board acts, together with the corresponding provisions of the public health, housing, education, and workmen's compensation acts; that these imperfectly drafted and piecemeal statutes admittedly require extension and amendment by new legislation, providing among other industrial reforms, for the general reduction of the working week to forty-eight hours, securing to every worker, by hand or by brain, at least the prescribed minimum of health, education, leisure, and subsistence, and that, in particular, a system of the legal basic wage needs to be extended and developed, so as to insure to every worker of either sex, in any occupation, in any part of the kingdom, as the very lowest statutory base line of wages (to be revised with every substantial rise in prices), not less than enough to provide all the requirements of a full development of body, mind, and character, from which the nation has no right to exclude any class or section whatever.

IV. THE RESTORATION OF TRADE-UNION CONDITIONS

1. That this conference reminds the government that it is pledged unreservedly, and the nation with it, to the restoration after the war of all rules, conditions, and customs that prevailed in the workshops

before the war; and to the abrogation, when peace comes, of all the changes introduced not only in the national factories and the 5,000 controlled establishments, but also in the large number of others to which provisions of the Munitions Act have been applied.

2. That the conference places on record its confident expectation and desire that if any employers should be so unscrupulous as to hesitate to fulfil this pledge, the government will see to it that there is no quibbling evasion of an obligation in which the whole labor movement has an interest.

3. The conference calls upon the government to provide adequate statutory machinery for the restoration of trade-union customs after the war: (a) by securing that all provisions necessary to enforce restoration shall continue in operation for a full year after the restrictive provisions abrogating trade-union rules have been terminated; (b) by removing all restrictions upon the right of workmen to strike for the restoration of the customs abrogated; (c) by limiting compulsory arbitration strictly to the war period and providing fully that the right to prosecute an employer for a failure to restore trade-union customs shall continue for a full year after the termination of restrictive powers.

4. The conference calls for the abrogation of the clauses restrictive of personal liberty in the Munitions of War Acts and in the defense of the realm acts immediately upon the conclusion of hostilities.

5. The conference finally urges that if some of the rules, conditions, and customs are, in the industrial reorganization that is contemplated, inconsistent with the highest production, or injurious to other sections of workers, it is for the government, as responsible for the fulfilment of the pledge, to submit for discussion to the trade-unions concerned alternative proposals for securing the standard wage and normal day, protecting the workers from unemployment, and maintaining the position and dignity of the crafts.

V. THE PREVENTION OF UNEMPLOYMENT

That the conference cannot ignore the likelihood that the years immediately following the war will include periods of grave dislocation of profit-making industry, when many thousands of willing workers will, if matters are left to private capitalism, probably be walking the streets in search of employment; that it is accordingly the duty of the ministry so to arrange the next ten years' program of national and local government works and services, including housing, schools, roads, railways, canals, harbors, afforestation, reclamation,

etc., as to be able to put this program in hand, at such a rate and in such districts as any temporary congestion of the labor market may require; that it is high time that the government laid aside the pretense that it has no responsibility for preventing unemployment; that now it is known that all which is required to prevent the occurrence of any widespread or lasting unemployment is that the aggregate total demand for labor should be maintained, year in and year out, at an approximately high level, and that this can be secured by nothing more revolutionary than a sensible distribution of works and services so as to keep always up to the prescribed total the aggregate public and capitalistic demand for labor, together with the prohibition of overtime in excess of the prescribed normal working day, there is no excuse for any government which allows such a grave social calamity as widespread or lasting unemployment ever to occur.

VI. UNEMPLOYMENT INSURANCE

That to meet the needs of individuals temporarily out of work, the labor party holds that the best provision is the out-of-work pay of a strong trade-union duly supplemented by a government subvention amounting to at least half the weekly allowance; and that for the succor of those for whom trade-union organization is not available, the state unemployment benefit, raised to an adequate sum, should be made universally applicable in all industries.

VII. THE COMPLETE EMANCIPATION OF WOMEN

That the conference holds that the changes in the position of women during the war, in which they have rendered such good service, and the importance of securing to women as to men the fullest possible opportunities for individual development, make it necessary to pay special attention in the reconstruction program to matters affecting women; and, in particular, the conference affirms:

a) With regard to industry on demobilization:

1. That work or maintenance at fair rates should be provided for all women displaced from their employment to make way for men returning from service.

2. That full inquiry should be made into trades and processes previously held to be unhealthy or unsuitable for women, but now being carried on by them, with a view to making recommendations as to the condition of their further employment in such trades.

3. That all women employed in trades formerly closed to them should only continue to be so employed at trade-union rates of wages.

4. That trade-unions should be urged to accept women members in all trades in which they are employed.

5. That the principle of equal pay for similar duties should be everywhere adopted.

b) With regard to civil rights:

1. That all legal restrictions on the entry of women into the professions on the same conditions as men should be abrogated.

2. That women should have all franchises, and be eligible for election to all public bodies on the same conditions as men.

3. That systematic provision should be made for the inclusion of women in committees, national or local, dealing with any subjects that are not of exclusively masculine interest.

4. That the present unjust provision of the income tax law, under which the married woman is not treated as an independent human being, even in respect of her own property or earnings, must be at once repealed.

VIII. THE RESTORATION OF PERSONAL LIBERTY

That this conference regards as fundamental the immediate repeal and abrogation, as soon as the war ends, of the whole system of the military service acts, and of all the provisions of the defense of the realm acts restricting freedom of speech, freedom of publication, freedom of the press, freedom of travel, and freedom of choice of residence or of occupation.

IX. POLITICAL REFORMS

That the conference reaffirms its conviction that no lasting settlement of the question of political reform can be reached without a genuine adoption of (*a*) complete adult suffrage; (*b*) absolute equal rights for both sexes; (*c*) effective provision for absent electors to vote and the best practicable arrangements for insuring that every minority has its proportionate representation; (*d*) the same civic rights for soldiers and sailors as for officers; (*e*) shorter Parliaments; (*f*) the complete abandonment of any attempt to control the people's representatives by a House of Lords.

This conference calls for the abolition of the House of Lords without replacement by any second chamber. The conference further protests against the disfranchisement of conscientious objectors.

X. IRELAND

That the conference unhesitatingly recognizes the claim of the people of Ireland to home rule, and to self-determination in all

exclusively Irish affairs ; it protests against the stubborn resistance to a democratic reorganization of Irish government maintained by those who alike in Ireland and Great Britain are striving to keep minorities dominant ; and it demands that a wide and generous measure of home rule should be immediately passed into law and put into execution.

XI. CONSTITUTIONAL DEVELOPMENT

That the conference regards as extremely grave the incapacity of the War Cabinet and the House of Commons to get through even the most urgently needed work ; it considers that some early devolution from Westminster of both legislation and administration is imperatively called for ; it suggests that, along with the grant of home rule to Ireland, there should be constituted separate statutory legislative assemblies for Scotland, Wales, and even England, with autonomous administration in matters of local concern ; and that the Parliament at Westminster should be retained in the form of a Federal Assembly for the United Kingdom, controlling the ministers responsible for the departments of the Federal government, who would form also, together with ministers representing the dominions and India, the Cabinet for Commonwealth affairs for the Britannic Commonwealth as a whole.

XII. LOCAL GOVERNMENT

That in order to avoid the evils of centralization and the drawbacks of bureaucracy, the conference suggests that the fullest possible scope should be given, in all branches of social reconstruction, to the democratically elected local governing bodies.

The conference holds, moreover, that the municipalities and county councils should not confine themselves to the costly services of education, sanitation, and police, nor yet rest content with acquiring control of the local water, gas, electricity, and tramways, but that they should greatly extend their enterprises in housing and town planning, parks, and public libraries, the provision of music and the organization of popular recreation, and also that they should be empowered to undertake, not only the retailing of coal, but also other services of common utility, particularly the local supply of milk, where this is not already fully and satisfactorily organized by a co-operative society.

Further, that councils be elected on the principle of proportional representation, and that to throw the position open to all persons, rich and poor, all councilors should be provided with payment for any necessary traveling expenses and for the time spent on the public service.

XIII. EDUCATION

That the conference holds that the most important of all the measures of social reconstruction must be a genuine nationalization of education, which shall get rid of class distinctions and privileges, and bring effectively within the reach, not only of every boy and girl, but of every adult male citizen, all the training, physical, mental and moral, literary, technical, and artistic, of which he is capable.

That the conference declares that the Labor Party cannot be satisfied with a system which condemns the great bulk of the children to merely elementary schooling with accommodation and equipment inferior to that of the secondary schools, in classes too large for efficient instruction, under teachers of whom at least one-third are insufficiently trained; which denies to the great majority of teachers in the kingdom alike any opportunity for all-round culture, as well as for training in their art, an adequate wage, reasonable prospects of advancement, and suitable superannuation allowances; and which, notwithstanding what is yet done by way of scholarships for exceptional geniuses, still reserve the endowed secondary schools, and even more the universities, for the most part, to the sons and daughters of a small privileged class, while contemplating nothing better than eight weeks a year continuation schooling up to eighteen for 90 per cent of the youth of the nation.

The conference accordingly asks for a systematic reorganization of the whole educational system, from the nursery school to the university, on the basis of (a) social equality; (b) the provision for each age, for child, youth, and adult, of the best and most varied education of which it is capable, and with due regard to its physical welfare and development, but without any form of military training; (c) the educational institutions, irrespective of social class or wealth, to be planned, equipped, and staffed according to their several functions, up to the same high level for elementary, secondary, or university teaching, with regard solely to the greatest possible educational efficiency, and free maintenance of such a kind as to enable the children to derive the full benefit of the education given; and (d) the recognition of the teaching profession, without distinction or grade, as one of the most valuable to the community.

XIV. HOUSING

That the conference, noting the fact that the shortage of habitable cottages in the United Kingdom now exceeds one million, regards a national campaign of cottage building at the public expense, in town and country alike, as the most urgent of social requirements.

That the attention of the government should be called to the fact that, until steps are taken to insist that the local authorities acquire the necessary sites, prepare schemes, plans, and specifications, and obtain all required sanctions, actually before the war ends there is very little chance of the half-a-million new cottages urgently needed in England, Scotland, Ireland, and Wales during the very first year of demobilization being ready for occupation within that time.

That it is essential that the "Million Cottages of the Great Peace," to be erected during the first two or three years after the war by the local authorities, with capital supplied by the national government free of interest, should be worthy to serve as models to other builders; and must accordingly be not only designed with some regard to appearance, not identical throughout the land, but adapted to local circumstances, and soundly constructed, spacious, and healthy; including four or five rooms, larder, scullery, cupboards, and fitted bath, but suitably grouped, not more than ten or twelve to the acre; and provided with sufficient garden ground.

XV. THE ABOLITION OF THE POOR AND THE DEVELOPMENT OF THE MUNICIPAL HEALTH SERVICE

That the conference notes with satisfaction the decision of the government both to establish a Ministry of Health and to abolish the whole system and organization of the poor law.

It regards the immediate reorganization, in town and country alike, of the public provision for the prevention and treatment of disease, and the care of orphans, the infirm, the incapacitated, and the aged needing institutional care, as an indispensable basis of any social reconstruction.

It calls for the prompt carrying out of the government's declared intention of abolishing, not merely the boards of guardians, but also the hated workshop and the poor law itself, and the merging of the work hitherto done for the destitute as paupers in that performed by the directly elected county, borough, and district councils for the citizens as such, without either the stigma of pauperism or the hampering limitations of the poor law system.

XVI. TEMPERANCE REFORM

That the conference records its sense of the great social evil and national waste caused by the excessive consumption of alcoholic liquors, and by the unfortunate intemperance of a relatively small section of the population; that the conference sees the key to temperance reform in taking the entire manufacture and retailing of alcoholic

drink out of the hands of those who find profit in promoting the utmost possible consumption; and the conference holds that in conjunction with any expropriation of the private interests the electors of each locality should be enabled to decide as they see fit: (a) to prohibit the sale of alcoholic drink within their own boundaries; (b) to reduce the number of places of sale and to regulate the conditions of sale; (c) to determine the manner in which the public places of refreshment and social intercourse in their own districts should be organized and controlled.

XVII. RAILWAYS AND CANALS

That the conference insists upon the retention in public hands of the railways and canals, and on the expropriation of the present stockholders on equitable terms, in order to permit of the organization, in conjunction with the harbors and docks, and the posts and telegraphs, of a unified national public service of communications and transport, to be worked, unhampered by any private interest (and with a steadily increasing participation of the organized workers in the management) exclusively for the common good.

The conference places on record that, if any government shall be so misguided as to purpose to hand the railways back to the shareholders or should give the companies any enlarged franchise by presenting them with the economies of unification or the profits of increased railway rates, or so extravagant as to bestow public funds on the re-equipment of privately owned lines, the Labor Party will offer any such project its most strenuous opposition.

XVIII. COAL AND IRON MINES

That the conference urges that the coal and iron mines, now under government control, should not be handed back to their capitalist proprietors, but that the measure of nationalization, which became imperative during the war, should be completed at the earliest possible moment, by the expropriation on equitable terms of all private interests in the extraction and distribution of the nation's coal (together with iron ore and other minerals).

The conference asks that the supply of these minerals should henceforth be conducted as a public service (with a steady increasing participation in the management of the workers concerned), for the cheapest and most regular supply to industry of its chief source of power, the retail distribution of household coal, at a fixed price, summer and winter alike, and identical at all railway stations throughout the kingdom, being undertaken by the elected municipal district or county council for the common good.

XIX. LIFE ASSURANCE

That the conference declares that, partly as a means of affording increased security to the tens of thousands of policy holders whose bonuses are imperiled by capital depreciation and war risks, and partly in order to free the nation from the burdensome and costly system of the industrial insurance companies, the state should take over (with equitable compensation to all interests affected) the whole function of life assurance, giving in place of the present onerous industrial insurance policies a universal funeral benefit free of charge; putting the whole class of insurance agents in the position of civil servants administering the state insurance business; developing to the utmost the beneficial work of the friendly societies in independence and security, and organizing, in conjunction with these societies, on the most improved principles, a safe and remunerative investment of popular savings.

XX. CONTROL OF CAPITALISTIC INDUSTRY

That the conference insists, especially in view of the rapid development of amalgamations, on the necessity of retaining after the war, and of developing the present system of organizing, controlling, and auditing the processes, profits, and prizes of capitalistic industry; that the economies of centralized purchasing of raw materials, foodstuffs, and other imports must be continued, and, therefore, the "rationing" of all establishments under a collective control; that the publicity of processes thus obtained has a valuable effect in bringing inefficient firms up to a higher level; that the "costing" of manufacturers' processes and auditing of their accounts, so as to discover the necessary cost of production, together with the authoritative limitation of prices at the factory, the wholesale warehouse, and the retail shop, affords, in industries not nationalized, the only security against the extortion of profiteering; and that it is as much the duty of the government to protect the consumer by limiting prices as it is to protect the factory operative from unhealthy conditions, or the householder from the burglar.

XXI. NATIONAL FINANCE

I. That, in view of the enormous debts contracted during the war, and of the necessity to lighten national financial burdens, this conference demands that an equitable system of conscription of accumulated wealth should be put into operation forthwith, with exemptions for fortunes below £1,000, and a graduated scale of rates for larger totals, believing that no system of taxation of income or profits only will yield enough to free the country from oppressive

debts, and that any attempt to tax food or other necessities of life would be unjust and ruinous to the masses of the people.

2. That the only solution of the difficulties which have arisen is a system by which the necessary national income shall be derived mainly from direct taxation alike of land and accumulated wealth, and of income and profits, together with suitable import upon luxuries, and that the death duties and the taxation upon unearned incomes should be substantially increased and equitably regarded.

3. That the whole system of land taxation should be revised so that by the direct taxation of the unearned increment of land values effect should be given to the fact that the land of the nation, which has been defended by the lives and sufferings of its people, shall belong to the nation, and be used for the nation's benefit.

4. That this conference protests against the subjection of co-operative dividends to the excess-profits tax and against the repeated attempts to bring co-operative dividends within the scope of the income tax.

5. That the Post Office Savings Bank should be developed into a national banking system for the common service of the whole community.

XXII. THE NEED FOR A "PEACE BOOK"

That in the opinion of this conference the problem of the social and industrial reconstruction of Great Britain after the war is of such grave importance and of such vital urgency, that it is imperative, in order to avoid confusion in the period of demobilization, that the main outlines of policy in all branches should be definitely formulated, upon the responsibility of the minister of reconstruction, before the war ends, so that they can be published in a Peace Book for public criticism before being finally adopted by the Cabinet, for the authoritative guidance of all ministers and heads of departments.

XVII

THE CONTROL OF INDUSTRIAL DEVELOPMENT

Again, we must remind ourselves that it is not enough to know that our system as a whole is in process of development. Novelty and goodness are not one; the newer society because of its newness is not perforce better than the old; our world, though transformed, has not of necessity become a better world in which to live. Movement there always is; but movement may or may not mark an advance. This possible antithesis between development and progress raises perhaps the most important of all current problems, for in its terms other problems must find their "solution." Should society allow its development to take its "natural course," or should it attempt to control it?

No absolute answer can be given to so universal a question. If the natural course gives evidence of being the path we would mark out, obviously we should keep our hands off. If for such a reason *laissez faire* is deliberately chosen, paradoxical as it seems, it becomes merely a convenient instrument of control. But if the "system is going awry," what shall we do? Just as obviously we should, to the extent of our intelligence and power, attempt to control the process.

But can we control so complex and many-sided a thing as social development? Unfortunately to this question we cannot give an unqualified affirmative. Many social "forces" are beyond our ken and power; others, of which we have some knowledge, cannot be reached by any contrivances which we have yet perfected; given programs promising definite results have the perversity to produce undreamed of complications; and immediate consequences have fallen into the disagreeable habit of distracting our attention from more ultimate and important results. It seems, therefore, that the wholesale prescription of "remedies" and the amateurish tinkering with parts are likely to prove dangerous. Yet, if we are sufficiently conscious of the limitations under which we are working, we can do something toward directing the movement. We know something of the elements involved; we have had much experience that should stand us in some stead; and we have evolved some very remarkable agencies of control. If we proceed cautiously, make our programs flexible, and quickly change our procedure to meet the unexpected contingencies which are inevitable, there is reason for faith in our ability eventually to accomplish much. If we essay the task, we shall need a knowledge of the means of control, a theory of the use of these means, and a consciousness of the "end" for which they are used. Let us consider these in turn.

Even if our desires be quite modest, they will necessitate the use of numerous and varied means of control. The changes which we wish to effect may be in the structure of society, in institutions, in activities, or in values; they may call for immediate and mechanical action or they may necessitate slow and gradual adaptations; they may affect almost the whole of society or may immediately touch only a single aspect of life. For these and a myriad other uses instruments of social control are available. The state can be used to secure quick mechanical changes; the school and the church can be used slowly to effect more gradual and organic adaptations; the labor union, by sharp, incisive action, can immediately further the interest of a group; the interest of a like group may gradually be advanced by a voluntary association using more peaceful methods; press and public opinion can reach a large part of society; occupational associations and codes of ethics can exercise

a control over particular groups; and convention and tradition through their prohibitions and inhibitions, can effectively direct the lives and activities of the individuals. Each of these agencies in its own way can be used to make the "system" somewhat different. Because of the multiplicity, variety, and efficiency of these agencies—despite the gravity of our ignorance—we could not escape social control if we would.

Our theory of the use of these "forces" has been very gradually built up, and as yet is far from complete. During most of the nineteenth century, when "the country was in a stage of increasing returns," when self-reliance was dominant, and when men dared not meddle with the rising machine-system which they very imperfectly understood, the dominant theory was that of laissez-faire. This theory overlooked entirely the influence exerted by agencies other than the state, as well as a large number of active functions performed by government, such as the protection of property and the maintenance of contract. At present the hold of individualistic theory is weakening. The frontier is gone; we are confronted by the grave problems of a mature society; we are less prone to attribute success or failure to personal merit or demerit; and we talk of "social conditions" and "inequality of opportunity." All of this inclines us to depend more upon authority, and threatens a radical extension and state activity. But there are potent checks upon this attitude. The interpretation of our constitution still proceeds from individualistic assumptions; the pecuniary organization of society still gives great weight to the views of the owners of "vested wealth"; and in many places a spirit of abandon in legislation is doing much to discredit state interference. But we are quite consciously coming to complement our theory of the province of government with a theory of the use of other agencies of control. For we are learning that we must pay for what we get, that legislation cannot produce utopias, that good is achieved rather than acquired, and that the less conspicuous agencies of control are as certain as they are slow.

A consciousness of the end for which these means are used is hardest for us to acquire. But, difficult as the task is, we must realize that, if we attempt social control we must know what we are about; we must have a tentative goal; we must appreciate the "end" at which we are aiming. To achieve that end our proposals must fit together into consistent programs; the instruments of control which we use must complement each other. This does not mean that there must be no element of antagonism in the system, but rather that there must not be the spoiled work which comes from the confused counsel whose origin is in dealing with problems in isolation. Consciousness of the "end" also involves looking beyond immediate proposals. Beyond conflicting proposals, seemingly unimportant, lie powerful social theories, quite contradictory in the kind of societies they tend to produce. In many problems, therefore, the ultimate issue is between different systems. Shall our ideal be that of a personal and industrial feudalism, an individualistic America of the nineteenth century, a socialized Germany of the Hohenzollerns, an idealized and Marxianized state, or something else? Upon our conception of the ideal state toward which "progress" should carry us depends our "solution" of the problems which we are about to discuss.

But what, then, of the future? What is going to become of society? When will it solve its problems? When shall we attain unto peace and plenty? Perhaps we can find some consolation in the fact that even the wisest of men have constantly despaired of the future of society. Perhaps we can solace ourselves with hope, which is ours eternally. From the biblical dream of the "New Jerusalem" to Wells' vision of "A Modern Utopia," we have had pictures a-plenty of the perfect state which "some day" will be realized. We have always had, and still have, wise men who furnish us with magical formulae for finding "the way out." While most of these are so simple as to tax our credulity, few of them fail to contain some germ of social wisdom.

But, in anticipating the future, we must not forget that our social resources are—and ever must be—*limited*. We must not overlook the fact that the interests of all are *not identical*. There will ever be the necessity for a struggle

with finite resources, and consequent economy. There will ever be competition for the larger shares of social income. If we intelligently attempt to direct the course of our development, if we try honestly to make the best possible contribution to the solution of the world-old enigmas of society, if we do our best to rid the immediate situation of its grosser incompatibilities, there is reason for thinking that development will more closely accord with that which we call "progress," that the newer social world will be somewhat more to the liking of the people who have to put up with it than the old. We shall not have freed future generations from having to "solve problems," but perhaps we shall have given them new problems somewhat further removed from "the margin of life." And thus we come to the end—and to the beginning—of our study.

A. INDUSTRY AN INSTRUMENT

385. A Functional Society¹

BY R. H. TAWNEY

A society which aimed at making the acquisition of wealth contingent upon the discharge of social obligations, which sought to proportion remuneration to service and denied it to those by whom no service was performed, which inquired first not what men possess, but what they can make, or create, or achieve, might be called a functional society, because in such a society the main subject of social emphasis would be the performance of functions.

The first condition, then, of the right organization of industry is the intellectual conversion which, in their distrust of principles, Englishmen are disposed to place last or to omit altogether. It is that emphasis should be transferred from the opportunities which it offers individuals to the social functions which it performs; that they should be clear as to its end and should judge it by reference to that end, not by incidental consequences which are foreign to it, however brilliant or alluring those consequences may be.

What gives it meaning to any activity which is not purely automatic is its purpose. It is because the purpose of industry, which is the conquest of nature for the service of man, is neither adequately expressed in its organization nor present to the minds of those engaged in it, because it is not regarded as a function but as an opportunity for personal gain or advancement or display, that the economic life of modern societies is in a perpetual state of morbid irritation. If the conditions which produce this unnatural tension are to be removed, the change can only be effected by the growth of a habit of mind which will approach questions of economic organization from the standpoint of the purpose which it exists to serve, and which will

¹Adapted from "The Sickness of Acquisitive Society," *Hibbard Journal*, XVII (1919), 356, 358-70. Copyright by Williams and Norgate (London), and Leroy Phillips & Co. (Boston).

apply to them something of the spirit expressed by Bacon when he said that the work of man ought to be carried on "for the glory of God and the relief of men's estate."

Viewed from that angle, issues which are insoluble when treated on the basis of rights, may be found more susceptible of reasonable treatment. For a purpose is, in the first place, a principle of limitation. It determines the end for which, and therefore the limits within which, an activity is to be carried on. It divides what is worth doing from what is not, and settles the scale upon which what is worth doing to be done. It is, in the second place, a principle of unity, because it supplies a common end to which efforts can be directed, and submits interests which would otherwise conflict to the judgment of an overruling object. It is, in the third place, a principle of apportionment or distribution. It assigns to the different parties or groups engaged in a common undertaking the place in which they are to occupy in carrying it out. Thus it establishes order, not upon chance or power, but upon a principle, and bases remuneration, not upon what men can, with good fortune, snatch for themselves, nor upon what, if unlucky, they can be induced to accept, but upon what is appropriate to their function, no more and no less, so that those who perform no function receive no payment, and those who contribute to the common end receive honorable payment for honorable service.

The practical expression of the idea of purpose would be a change in the prevalent conceptions both of economic activity and of property. The natural result of emphasizing rights as the foundation of social organization is to cause industry to be regarded primarily as a private enterprise in which the interest of the community is indirect, and in which it intervenes only in the case of some special danger or abnormal abuse. The transference of emphasis from rights to functions would result in industry being considered primarily as a social service; and, however the principle that industry is a social service may be interpreted, there are at any rate three implications that are involved in it.

The first is that it should be conducted in complete publicity with regard both to costs of production and to profits. The second is that the primary consideration in its organization should be that the community should be offered the best service technically possible at the lowest price compatible with adequate payment to those who render it. The third is that, when all charges necessary to the supply of a service have been met, any surplus which remains should pass to the public.

Equally radical would be the modifications in the prevalent attitude toward property. A sharp distinction would be drawn between

property which is used by the owner for the conduct of his profession or the upkeep of his household, and property which yields an income irrespective of any personal service. The former, the holding of the peasant, or the tools of the workman, or the personal possessions necessary to a civilized life, would be regarded as legitimate, for they are the condition of service. The latter, of which the most obvious examples are urban ground rents or mining royalties, would be regarded as illegitimate, since they are merely a pecuniary lien upon the product of someone else's industry, which carries no obligation of service with it.

A functional society would extinguish mercilessly those forms of property rights which yield income without service. It would treat all forms of property other than personal possessions as subject to the eminent domain of the state; and though it would not necessarily retain their administration in its own hands, it would reserve its right to resume it whenever the function attached to them was not discharged.

It would not seek to establish any visionary communism; for it would realize that a free disposal of a sufficiency of personal possessions is necessary for a healthy individual life, and would distribute them more widely by abolishing the property rights in virtue of which they were concentrated. But there would be no private property in urban land; it would be owned by the authorities of the city which is built upon it, as in many continental towns it is owned today, and they would be armed with powers of compulsory acquisition to supply the need for space for a growing population.

There would be question of the right of the owner of agricultural land to use it for sport. There would be private property—subject to the right of compulsory purchase—in industrial capital used by the owners for the purpose of production: the forge of the smith, the workshop of the carpenter, the factory of the man who is at once owner and manager. But there would be an end of the property rights in virtue of which the welfare of the industries on which whole population depends are administered by the agents and for the profit of absentee shareholders.

386. The Ethics of Industry²

BY JAMES H. TUFTS

The issues are so involved and both the facts and their interpretations are in so much controversy that upon most economic problems we cannot yet formulate sure moral judgments. Yet certain prin-

²Adapted from John Dewey and James H. Tufts, *Ethics*, pp. 514-22. Copyright by Henry Holt & Co., 1908.

ciples emerge with a good deal of clearness. We state some of the more obvious.

1. *Wealth and property are subordinate in importance to personality.*—The life is more than meat. Most agree to this, but many fail to make the application. They may sacrifice their own health, or human sympathy, or family life; or they may consent to this actively or passively as employers, or consumers, or citizens, in the case of others. A civilization which loses life in providing the means of life is not highly moral. A society which can afford luxuries for some cannot easily justify unhealthy conditions of production or lack of general education. A society which considers wealth or property as ultimate, whether under a conception of "natural rights" or otherwise, is setting the means above the end, and is therefore unmoral or immoral.

2. *Wealth should depend on activity.*—The highest aspect of life on its individual side is found in active and resolute achievement, in the embodying of purpose in action. Thought, discovery, creation, mark a higher value than the satisfaction of wants, or the amassing of goods. If the latter is to be a help it must stimulate activity, not deaden it. Inherited wealth without any accompanying incitement from education or class feeling or public opinion would be a questionable institution from this point of view. As the race has made its ascent in the presence of an environment which has constantly selected the most active persons, society in its institutions and consciously directed processes may well plan to keep the balance between activity and reward.

3. *Public service should go along with wealth.*—Such service, in the form of some useful contribution, whether to the production or the distribution of wealth, to the public order, to education, to the satisfaction of aesthetic and religious wants, might be demanded as a matter of common honesty. This would be to treat it as a just claim made by society upon each of its members. There is, of course, no legal claim. The law is far from adopting as its motto, "If any man will not work, neither let him eat." Vagrancy is not a term applied to all idlers. Modern law, in its zeal to strengthen the institution of property, releases the owner's posterity from the necessity of useful service. The old theology used to carry the conception of inherited or imputed sin and merits to extremes which modern individualism rejects. But the law permits inheritors of property to receive from society without rendering any personal return. Merely "to have been born" is hardly sufficient in a democratic society.

But there is another aspect—what the service means to the person himself. It is his opportunity to fulfil his function in the social organ-

ism. A person is as large as his purpose and will. The person, therefore, who identifies his purposes with the welfare of the public is thereby identifying himself with the whole social body. He is no longer himself alone; he is a social power. This is true of the leaders of society; of the great inventors and organizers of industry; and of the common laborer himself. As each is an active contributor, he becomes creative, not merely receptive.

4. *The change from individual to collective methods of industry and business demands a change from individual to collective types of morality.*—Moral action is either to accomplish some positive good or to hinder some wrong or evil. But under present conditions the individual by himself is practically helpless and useless for either purpose. It was formerly possible for a man to set a high standard and live up to it, irrespective of the co-operation of others. When a seller's market was limited to his acquaintances, it might well be that honesty was the best policy. But with changes in business conditions, the worse practices, like the baser coinage, in many cases have driven out the better. A merchant desires to pay his women clerks a living wage. But his rival across the street pays only half the wage necessary for subsistence, and puts him at a disadvantage. This railroad defies the government by owning coal mines as well as transporting the product; that public service corporation has obtained its franchise by bribery; this corporation is an employer of child labor; that finds it less expensive to pay a few damage suits than to adopt devices which protect employees. Does a man, or even an institution, act morally if he invests in such corporations in which he finds himself hopeless as an individual stockholder? If he sells the stock at the market price to invest the money elsewhere, is it not still the price of fraud or blood? The individual cannot be moral in independence. The modern business collectivism forces a collective morality. Individual morality must give place to a more robust or social type.

5. *To meet the change to corporate agency and ownership ways must be found to restore personal control and responsibility.*—Freedom and responsibility must go hand in hand. The "moral liability limited" theory cannot be accepted in the simple form in which it now obtains. If society holds stockholders responsible, they will soon cease to elect managers merely on the economic basis and will demand morality. "Crime is always personal," and it is not usual for subordinates to commit crimes for the corporation against the explicit wishes of higher officials. In certain lines the parties concerned have sought to restore a more personal relation. It has been found possible to engage foremen who can get on smoothly with workmen. Labor

unions are coming to see the need of conciliating public opinion if they are to gain their contests.

6. *To meet the impersonal agencies society must require greater publicity and express its moral standards more fully in law.*—Publicity is not a cure for bad practices, but it is a powerful deterrent agency so long as the offenders care for public opinion. Publicity—scientific investigation and public discussion—is indeed indispensable, and its greatest value is probably not in the exhilarating discharge of righteous indignation, but in the positive elevation of standards, by giving completer knowledge and showing the fruits of certain practices. A large proportion of the public will wish to do the right thing if they can see it clearly and can have public support.

But the logical way to meet the impersonal character of modern economic agencies is by the moral consciousness embodied in the law. The law is not to be regarded chiefly as an agency for punishing criminals. It, in the first place, defines a standard; and, in the next place, it helps the moral man disposed to maintain this standard by freeing him from unscrupulous competition.

7. *Every member of society should share in its wealth and in the values made possible by it.*—The worth and dignity of every human being of moral capacity is fundamental in nearly every moral system of modern times. It is implicit in the Christian doctrine of the worth of a soul, in the Kantian doctrine of personality, in the Benthamic dictum, "every man to count as one." It is imbedded in our democratic theory and institutions. With the leveling and equalizing of physical and mental power brought about by modern inventions and the spread of intelligence, no state is permanently safe except on a foundation of justice. Justice cannot be fundamentally in contradiction with the essence of democracy. This means that wealth must be produced, distributed, and owned justly; that is, so as to promote the individuality of every member of society, while at the same time he must always function as a member, not as an individual.

387. Surplus Wealth for the Common Good³

In the disposal of the surplus above the standard of life, society has hitherto gone as far wrong as in its neglect to secure the necessary basis of any genuine industrial efficiency or decent social order. We have allowed the riches of our mines, the rental value of the lands superior to the margin of cultivation, the extra profits of the fortunate capitalists, even the material outcome of scientific discoveries—which ought by now to have made this Britain of ours immune from class

³Adapted from the resolutions adopted at a conference of the British Labor Party, 1918.

poverty or from any widespread destitution—to be absorbed by individual proprietors; and then devoted very largely to the senseless luxury of an idle rich class. Against this misappropriation of the wealth of the community, the Labor party—speaking in the interests, not of the wage-earners alone, but of every grade and section of producers by hand or by brain, not to mention also those of the generations that are to succeed us, and of the permanent welfare of the community—emphatically protests. One main pillar of the house that the Labor party intends to build is the future appropriation of the surplus, not to the enlargement of any individual fortune, but to the common good. It is from this constantly arising surplus (to be secured, on the one hand, by nationalization and municipalization and, on the other, by the steeply graduated taxation of private incomes and riches) that will have to be found the new capital which the community day by day needs for the perpetual improvement and increase of its various enterprises, for which we shall decline to be dependent on the usury-exacting financiers. It is from the same source that has to be defrayed the public provision for the sick and infirm of all kinds (including that for maternity and infancy) which is still so scandalously insufficient; for the aged and those prematurely incapacitated by accident or disease, now in many ways so imperfectly cared for; for the education alike of children, of adolescents, and of adults, in which the Labor party demands a genuine equality of opportunity, overcoming all differences of material circumstances; and for the organization of public improvements of all kinds, including the brightening of the lives of those now condemned to almost ceaseless toil, and a great development of the means of recreation. From the same source must come the greatly increased public provision that the Labor party will insist on being made for scientific investigation and original research, in every branch of knowledge, not to say also for the promotion of music, literature, and fine art, which have been under capitalism so greatly neglected, and upon which, so the Labor party holds, any real development of civilization fundamentally depends. Society, like the individual, does not live by bread alone—does not exist only for perpetual wealth production. It is in the proposal for this appropriation of every surplus for the common good—in the vision of its resolute use for the building up of the community as a whole instead of for the magnification of individual fortunes—that the Labor party, as the party of the producers by hand or by brain, most distinctively marks itself off from the older political parties, standing, as these do, essentially for the maintenance, unimpaired, of the perpetual private mortgage upon the annual product of

the nation that is involved in the individual ownership of land and capital.

B. CONTROL BY MAGIC—PANACEAS

388. Stable Money and the Future⁴

BY GEORGE H. SHIBLEY

With a return to the more stable bimetallic standard of prices and with the principle established that "stability in the measure of prices (exchange value) is the desideratum," *the people of the United States will insist that the measure be kept practically unfluctuating through the government controlling the volume of paper money.* THIS WILL MAKE STABLE THE MEASURE OF PRICES THROUGHOUT THE SPECIE-USING COUNTRIES. In a short time, then, the principle will become deeply rooted in the ethics of *all the advanced peoples* that stability in the measure of prices is just—right. Then shall we have such co-operation among nations as will keep specie in the money of the several countries, and by so doing *keep an equilibrium in the export and import prices of these countries through using the specie in paying balances in trade.*

With a stable measure of prices there will be added "a wholly new degree of stability to social relations." This is equivalent to saying that with general prices stable *there will be steady employment and the consequent good times and the dropping away of nearly all the tariff wars.* THEN WILL THE DISARMING OF EUROPE SPEEDILY COME ABOUT AND THE ARBITRATION OF ALL FUTURE DIFFERENCES BE AGREED UPON BY THE LEADING NATIONS. AND WHEN THIS OCCURS THE LESSER NATIONS WILL BE COMPELLED TO SUBMIT THEIR DISPUTES TO ARBITRATION.

This is not visionary. It is the direction toward which past events point. Are we to progress? Reader, you are one of the factors. Is it in you to help along the car of progress?

389. The Way Out⁵

BY JOHN RAYMOND CUMMINGS

In the following pages I undertake to prove these propositions:
That there is a natural money.

⁴Adapted from "The 50 Per Cent Fall in General Prices, the Evil Effects, the Remedy, Bimetallism at 16 to 1, and Governmental Control of Paper Money, in Order to Secure a Stable Measure of Prices," in *Stable Money: Monetary History, 1850-1896*, pp. 722-23. Copyright by the Stable Money Publishing Co., 1896.

⁵Adapted from *Natural Money: The Peaceful Solution*, pp. 5-6. Copyright by the Bankers Publishing Co., 1912. See also the author's *Social Autonomy: The New Economic Dispensation*.

That its adoption will make panics impossible.

That after a term of years natural money will bring our banking system to such condition that every bank will be able to pay all its obligations instantly. Banks will then be the accountants, custodians, and clearing-houses for all the people.

That in the course of time (probably within fifty years) natural money will put all business on a cash basis.

That in a like period the interest rate for property loans will fall to 1 or 2 per cent, and probably will disappear from money loans.

Natural money will enable the government to take over all the land and all the privately owned public utilities on terms very liberal to present owners, without issuing a bond and without hardship and injustice.

It will enable the government to build during the same period a million miles of highway at a cost of \$10,000 the mile.

To irrigate and drain a large proportion of the area needing irrigation and drainage.

To develop tens of millions of horse power from water and distribute it throughout the country.

To develop internal waterways on a scale hitherto unattempted and undreamed of.

It will raise wages and end strikes and lockouts.

It will establish natural wages and secure equity as between employers and employees.

It will pay off the government debt and make future debt impossible.

It will end our present industrial warfare and bring now discordant classes into harmonious co-operation, inaugurating an era of progress and prosperity such as the world has not even conceived of.

390. Universal Federation⁶

BY KING C. GILLETTE

"World Corporation" will result in a new civilization, new in every part of its structure of mind and matter. The whole aspect of nature will assume new meanings and ends, for it will be seen by new senses of interpretation. With our present individual knowledge, we cannot conceive it; or, if we could, we would not believe it possible.

⁶Adapted from *World Corporation*, pp. 216-19. Copyright by the author, 1910.

Who is there wise enough to predict what will result after "world-corporation" has been launched, after the people realize what its success will mean, what the outcome will be? Who can foresee to what degree of enthusiasm the people will rise in their desire and hope for emancipation! Man is emotional, and quickly carried forward upon waves of popular excitement; and it is these great tidal waves of emotion that mark the revolutionary changes throughout history. The gradual growth of a thought, an idea which has within it a germ of human progress, finds its culmination in emotion, and change is brought about quickly and decisively.

The thought that humanity is on the borderland of a new system, a new epoch-making period of the world's history, is spreading from mind to mind, and rapidly changing preconceived ideas of life and man's relation to man and to nature. The fever of excitement is already beginning to course through the veins, and only waits on conviction to burst into flame.

The elimination of competition by the centralization of industry into corporations and trusts, and its resulting economies, has set the individual to thinking. He begins to doubt his old belief that competition is necessary to progress; he asks himself questions and seeks the answers in his own mind, and, when these answers are not forthcoming, he asks others. Discussions are heard on every hand in regard to corporations and trusts, and newspapers and magazines are largely devoted to this same subject. All are asking: What is the outcome of this evolution that is taking place? What is a corporation? What is a trust? Are they not miniature corporate governments of capital and individuals? And gradually the thought begins to dawn—the thought which is going to rise to a culminating point within the next few years, and carry men off their feet; which will crowd out every selfish idea—**THE THOUGHT THAT THE EMANCIPATION OF THE HUMAN RACE IS IN OUR HANDS.** By a single stroke humanity can change a system of extravagance, disorder, injustice, and crime into one of order, equity, and virtue. Nothing stands in the way; for where is there any difference between the control of a part of industry by a few individuals and the control of all industry by all? This is the thought that will be acted upon; this is the thought that will make men forget self and pour their minds and wealth with equal prodigality into the treasury of "world-corporation."

Enthusiasm is the foundation of power which centralizes force and destroys every barrier between itself and its purpose. It makes an army out of scattered parts. It leads to "world-corporation."

391. A New Earth¹

BY L. G. CHIOZZA MONEY

It would be a great pity, if anyone were to imagine that the changes necessary to secure the just reward of all forms of labor are either difficult to effect or likely to cause dislocation in the making. The greater number of our industrial concerns are already shaped in the form of limited liability companies, the shareholders in which are dumb, while the management is in the hands of paid officials. The reform which needs to be effected is to substitute the community at large for the dumb shareholders. Management, ability, invention, would be properly rewarded, as they are now rewarded in some cases, and as they are not now rewarded in many cases. The only change would be the gradual substitution of the community for the shareholders, and the consequent disappearance of unearned incomes. Such portions of the product as were necessary for application as new capital would be so applied by the community. For the rest, the whole of the product would go to labor. Savings, the necessary saving, without which labor would go without tools, would be simply and automatically effected, and capital would take its true and rightful place as the handmaiden of labor.

Let us not go farther without a vision and a hope. That vision, that hope, is not of a regimented society, but of a community relieved from nine-tenths of its present irksome routine and carking care. If the individual is to be set free it can only be in a society so organized as to reduce the labor employed in the production of common necessities to a minimum. The minimum cannot be secured without the organization of each of the great branches of production and distribution. Common needs can be satisfied with little labor if labor be properly applied. The work of a few will feed a hundred or supply exquisite cloth for the clothing of fifty. The work of a few hours per day of every adult member of the community will be ample to supply every comfort in each season to all. Thus set free, the lives of men will turn to the uplifting, individual work which is the pride of every craftsman. The dwellings of men will contain not only the socialized products within common reach, but the proud individual achievements of their inmates. The simple and beautiful clothing of the community will chiefly be made of fabrics woven in the socialized factories, but it will often be worked by the loving hands of women. A happy union of labor economized in routine work and labor lavished upon individual work will uplift the crafts of the future and the character of those who follow them. The abominations of machine-made

¹Adapted from *Riches and Poverty*, pp. 324-29. Published by Methuen & Co., 1905.

ornament will disappear, and art be wedded to everyday life. Each new invention to save labor in mining, or tilling, or building, or spinning, will be hailed with joy as a release from toil and a gift of more time in which to do individual work.

The inventor, the originator, now unhappily compelled to hunt for a capitalist and bow low his genius before some individual distinguished only for that gift of acquisitiveness, that business ability, which is the lowest attribute of mankind, will see his idea put to the test and reap not unholy gains but the honor of his fellows if it is not found wanting. The painter, no longer compelled to paint portraits for the rich and not necessarily beautiful, will ally his gifts with the common life of men and be carried in triumph before the enduring monuments of his genius. The organizer, the man of arrangement, will be invited to exercise his talent, not in overreaching and despoiling his fellows, but in planning their welfare in a thousand new schemes of development.

No host of wasteful workers will be found in the industrial camp. Accounts will be simple and clerks few. No travelers, agents, or touts will be needed to push doubtful commodities. The sham and the substitute will be found only in museums. It will be obviously ridiculous to employ any but good materials, for labor can only be economized by producing the things which are the best of their kind. Policies of insurance, those typical documents of a community of prey, will be read in the public archives with much the same feeling as we now read a warrant for the burning of a Bruno. The young men who now waste their time in ruling up books in banks and insurance offices or in serving writs will find manly and useful work. The production of commodities will be commensurate with the labor put forth, unemployment will be one of the few crimes known to the statute-book, and last, but not least, the economic dependence of women will cease.

The attainment of such ends will only be difficult as long as we refuse to apply scientific methods to the ordering of common affairs. It is in the domain of politics alone that men refuse to apply first principles to the solution of problems. The mental daring which has accomplished so much in engineering, in astronomy, in surgery, in every department of science, is replaced in the sphere of politics by a timorous tinkering with admitted evils. With things the scientist has worked marvels in a single century. With those marvels the politician has done little. The scientist has applied his skill to locomotion; the politician has refused to avail himself of that skill in order to distribute the population healthily. The scientist has stated the conditions of health; the politician has refused

to create those conditions. The scientist has supplied the tools; the politician has neglected to take them up.

The problem of riches and poverty is of the simplest. It presents none of the difficulties which attach to the measurement of the mass of the sun, or the treatment of such a disease as cancer. Science has presented us with such instruments that we can easily create a tremendous superfluity of commodities if we choose to do so. We know how to produce; we know how to transport the results of our production. The appliances at our command could furnish many more foot-tons of work than are needed to give proper housing, suitable clothing and good food to every unit of the community. There is here no impenetrable secret; we have read enough in the book of Nature to control her forces to effect; our power of production is not too small, but already greater than our need. If invention went no farther, if science now came to a standstill, we should have tools more adequate to abolish poverty.

Unfortunately the politicians and the economists have never discussed the question of poverty from this point of view. Volumes have been written on such subjects as "rent," "interest," or "value," but nothing has been done to enquire how much work is needed to feed, clothe and house a community, and how best that work may be accomplished. In designing an engine, the man of science considers the work to be done and the known means to do it. For want of that agreement and determination, for want, that is, of a wise collectivism, the greater number of our people are poor. It is a world of service which a civilization would substitute for a world of serfdom and pain. But if, realizing that the world has no room for the idle, the people would rise to a freedom only bounded by the knowledge of and necessity for collective decision, then there is the broadest avenue for hope and the clearest call to action. The achievements of those who are gone, these are the inheritance of the people. The only true riches of the nation, men and women, these are the people themselves. The people have but to will it, and we set our faces toward a civilization.

C. CONTROL BY METHOD

392. Control—Agitation vs. Method*

BY WESLEY C. MITCHELL

The effect of the war upon our attitude toward the use of facts for the guidance of policy links the present stake of civilization with

*Adapted by permission from "Statistics and Government," *Quarterly Publications of the American Statistical Association*. XVI (1918), 228-32.

man's savage past. Anthropologists have come to recognize that catastrophes have played a leading rôle in advancing culture. The savage and the barbarian are such conservative creatures that nothing short of a catastrophe can shake them out of their settled habits, make them critical of old taboos, drive them to use their intelligence freely.

In physical science and in industrial technique, it is true, we have emancipated ourselves largely from the savage dependence upon catastrophes for progress. For in these fields of activity we have developed a habit of criticizing old formulations, of testing what our fathers accepted, of experimenting. We keep discarding the good for the better, even when not under pressure. The result is a fairly steady rate of advance—advance so regular that we count upon it in laying plans for the future. Today we are sure that ten years hence our present scientific ideas and our present industrial machinery will be antiquated in good part.

In science and in industry we are radicals—radicals relying upon a tested method. But in matters of social organization we retain a large part of the conservatism characteristic of the savage mind. A great catastrophe may force us for a little while to take the problems of social organization seriously. While under stress we make rapid progress. But when the stress is past we relapse gratefully into our comfortable faith in thinking that has been done for us by our fathers.

I know that there are ardent folk who will challenge these contentions at least for the present. They trust that the outburst of patriotic fervor brought on by the war will carry us triumphantly forward for a generation. They count on the generous self-sacrifice which all classes have shown to solve the problems of peace as they have solved the problems of war. Certainly we shall never be precisely where we were before the war. But just as certainly we shall not remain what we have been during the war. We cannot depend upon any carrying over of war psychology to organize democracy in peace.

The "social reformer" we have always with us, it is true, or rather most of us are "social reformers" of some kind. We all admire the qualities that go to make the leaders in social reform—warm sympathy for the oppressed, courage to face ridicule, flaming zeal in the face of indifference, tact and energy in conducting crusades. But an indefinite succession of campaigns to secure this, that, and the other specific reform is what we have been having for a long, long time. Many of the reforms on which our grandfathers, our fathers, and our youthful selves have set our hearts have been achieved. Yet

the story of the past in matters of social organization is not a story that we should like to have continued for a thousand and one years. Reform by agitation or class struggle is a jerky way of moving forward, uncomfortable and wasteful of energy. Are we not intelligent enough to devise a steadier and a more certain method of progress?

Most certainly we could not keep social organization what it is even if we wanted to. We are not emerging from the hazards of war into a safe world. On the contrary, the world is a very dangerous place for a society framed as our is, and I for one am glad of it. The dangers are increased by our very progress in industry and in democracy. Not long ago an English physicist re-emphasized the fact that modern Christendom is using up at an ever-increasing pace the energy stored during long ages in the coal fields, and pictured the doubtful fate of human kind as hanging on the race between science and the atom. Has not the time come to apply our intelligence to taking stock of the resources that the earth still holds and to developing methods of utilization that will protect our future? As for democratic progress, we know that men who can read and vote make restless citizens in a state where their work is not interesting to them and where their rewards do not satisfy their sense of justice. Such is the present stage of affairs with millions of aggressive Americans. They can be counted upon to change things by turmoil if things are not changed by method.

Our first and foremost concern is to develop some way of carrying on the indefinitely complicated processes of modern industry and interchange day by day, despite all tedium and fatigue, and yet keeping ourselves interested in our work and contented with the division of the product. This is a task of supreme difficulty—a task that calls for intelligent experimentation and detailed planning rather than for agitation and class struggle. What is lacking to achieve the end, indeed, is not so much good-will as it is knowledge, above all knowledge of human behavior.

Our best hope of the future lies in the extension to social organization of the methods which we already employ in our most progressive fields of effort. In science and in industry, I have said, we do not wait for catastrophes to force new ways upon us. We do not rely upon the propelling power of great emotion. We rely, and with success, upon quantitative analysis to point the way; and we advance because we are constantly improving and applying such analysis.

While I think that the development of social science offers more hope for solving our social problems than any other line of endeavor, I do not claim that these sciences in their present state are very

serviceable. They are immature, speculative, filled with controversies. Their most energetic exponents are still in the stage of developing new "viewpoints," beginning over again on a different plan instead of carrying farther the analysis of their predecessors. In part the social sciences represent not what is so much as what their writers think ought to be. In short, the social sciences are still childish. Nor have we any certain assurance that they will ever grow into robust manhood, no matter what care we lavish upon them. They are blind leads of speculation in which past generations have mined industriously for ages with little gain. Perhaps the social sciences will prove more like metaphysics than like mechanics, more like theology than like chemistry. The race may always shape its larger destinies by a confused struggle in which force and fraud, good intentions, fiery zeal, and rule of thumb are more potent factors than measurement and planning. Those of us who are concerned with the social sciences, then, are engaged in an uncertain enterprise; perhaps we shall win no great treasures for mankind. But certainly it is our task to work out this lead with all the intelligence and the energy we possess until its richness or sterility be demonstrated.

The social sciences, however, cover an immense field, and it is not probable that we shall encounter failure or success in all its parts. The parts which are most promising just now include the field of statistics. Measurement is one of the outstanding characteristics of science at large, whether in the field of inorganic matter or life processes. Social statistics, which is concerned with the measurement of social phenomena, has many of the progressive features of the physical sciences. It shows forth right progress in knowledge of fact, in technique of analysis, and in refinement of results. It is amenable to mathematical formulation. It is capable of forecasting group phenomena. It is objective. A statistician is usually either right or wrong, and his successors can demonstrate which. Statisticians are not continually beginning their science all over again by developing new viewpoints. When one investigator stops, the next investigator begins with larger collections of data, with extensions into fresh fields, or with more powerful methods of analysis. In all these respects, the position and prospects of social statistics are more like the position and prospects of the natural sciences than like those of the social sciences.

Above all, social statistics even in its present stage is directly applicable over a wide range in the management of practical affairs, particularly the affairs of government. The practical value of statistics is readily demonstrable even to a busy executive. Once secure

a quantitative statement of the crucial elements in an official's problem, draw it up in concise form, illuminate the tables with a chart or two, bind the memorandum in an attractive cover tied with a new bowknot, and it is the exceptional man who will reject your aid. Thereafter your trouble will not be to get your statistics used, but to meet the continual calls for more figures, and to prevent your convert from taking your estimates more literally than you take them yourself.

We may well cherish high hopes for the immediate future of social statistics. In contributing toward a quantitative knowledge of social facts, in putting knowledge at the disposal of responsible officials, we are contributing a crucially important part toward achieving the greatest task that confronts mankind today—the task of developing a method by which we may make cumulative progress in social organization.

393. The Socialization of Knowledge⁹

BY J. MAURICE CLARK

As the war rolls over us, and wakes us to the need of doing the impossible, we suddenly become aware that we have resources of knowledge that are comparatively little utilized. The consumer for the most part orders his diet in sublime ignorance of true food values, and wages an unequal contest with the swiftly changing arts of adulteration and imitation. Nowadays his guidance requires mobilized knowledge rather than unmobilized habit, and knowledge of a detailed scientific character about a multitude of things such as only specialized researches can supply. The consumer has not hired these things done for him, partly because he did not know how badly he needed them, and partly for the reason that knowledge is not appropriable like the ordinary commodity and its production is largely an unpaid service. The present wave of public education into the mysteries of proteins and calories, then, is but a phase of an inevitable development, due to science and scientific methods of production.

Producers as well as consumers suffer from imperfect utilization of the existing stock of knowledge of their trade. The "state of the arts," apart from patents and secret processes, is properly a national asset, but there is no comprehensive machinery for organizing it on a national scale. The standardization of methods, combining the best that is found anywhere, can not only raise the average efficiency of

⁹Adapted from "The Basis of War-Time Collectivism," *American Economic Review* (December, 1917), pp. 772-90. Copyright by the American Economic Association.

industry; it can even show the most efficient how to improve still farther by strengthening his weak points. The present channels for interchange of knowledge are more efficient between producers than between consumers, and complete pooling might injure the incentive to private inventiveness in the future. One of the most promising fields for standardization is that of labor policies, for here the rivalries between employers do not come into the foreground as they do in the case of mechanical devices or chemical formulae and they feel that there is little to lose by the pooling of labor policies. Moreover, the gain an employer can make from successful treatment of labor has not, apparently, been an effective enough incentive to get the labor problem solved for the nations. What is needed here is a discriminating policy. For the immediate emergency any amount of pooling that can be secured in any field will be clear gain, and will have no bad effects on future progress. After the war, if the socializing of trade knowledge is to be continued in any industries, there will be need of a more formal system, fortified with more substantial inducements. Meanwhile the experience of the war, if properly utilized, will be furnishing valuable testimony as to where the greatest gains are to be had.

As these words were being written the morning paper arrived, with the announcement of a new American aeroplane engine, as good as the best foreign engines, and combining many of their best features, but capable of being turned out in large numbers by American standardized machine-process methods, rather than with much hand labor of many artisan-technicians, as abroad. This achievement¹⁰ seems to have been made possible chiefly by the pooling of engineering talent and of different designs and trade secrets, under an incentive strong enough to spur men to work twenty-four hours a day. There is a prospect of continued progress, also, but chiefly under the spur of the most active of all forms of competition; namely, the competition at the fighting front.

Such things prove that there are unused possibilities for immediate advancement in private industries where patents or secret processes are held, or where local producers are out of touch with each other's achievements. They give one a sense of the sudden liberation of pent-up forces that reacts into sheer exasperation at the obstacles of ignorance and inertia which hamper us, and the walls of secrecy and proprietary prohibition which we erect at such pains and guard so sedulously. But they do not prove that all competitive incentives can be discarded and all competitive barriers broken down if we wish to keep on progressing.

There are certain fields where the progress that is due to the spur of private incentive is hardly notable enough and rapid enough to be worth keeping, if keeping it involves sacrificing any experiment which has a prospect of showing really substantial results. These backward fields are chiefly those in which business is in the hands of many small producers, or carried on in small places with the aid of more handicraft skill than of mechanical devices and engineering or scientific methods. Very small producers cannot afford to experiment extensively, nor to study the methods of other producers in the attempt to standardize their own, and it would be ruinously wasteful duplication of work if they were to do so as individuals. Extremely small producers cannot even be expected to be in a position to organize themselves effectively into associations to do this sort of thing for them, although that is one way in which the dilemma may in many cases be solved. Another solution, far less desirable, is the extinction of small producers by larger ones who can afford the study and investigation required to standardize efficiency and attain it.

This would amount to sacrificing the small producers, not because they cannot be as useful, or perhaps more useful, than large ones in the actual work of production, but because they cannot organize and standardize their work as well as carry it on. But if the standardizing can be done for them by some large agency, they may prove, on account of their more direct contact with the details of the business and on account of the more intimate relation between owner, workman, and consumer, to be better adapted to handling the industrial problems which hinge on these unstandardized and very human relations. For example, if systems of accounting, stock keeping, organization of space, and delivery can be standardized for the various kinds of retailers by studies made on a large scale, and market information secured by some large-scale agency, the small retailer will have presented to him the means of equaling the advantages which the chain store now has over him in these matters, and he need not spend his time and energy on the kind of problem at which he is necessarily working at a very heavy disadvantage, but can spend it all on the sort of problem which no standardized system can solve for him, studying his customers' tastes, and adapting his policy to the peculiarities of his local market.

If local producers are so far out of touch with each other that they make no attempt to imitate each other's strong points, but each continues in his own groove, satisfied with the methods he has developed himself and with his achievements in those parts of the process in which he himself may be superior, this fact itself is evidence that

the competitive stimulus is not strong enough to do the work we rely on it to do. Producers who are in no sharper competition than this are not receiving the kind of competitive stimulus that is likely to lead to rapid industrial progress. In such a case one need not be afraid of the weakening of competitive stimulus which would come from pooling the knowledge of the trade, for there is so little stimulus to lose. There would be no grave danger even in going to the length of standardizing the process and trusting to co-operative enterprise, or the "instinct of workmanship," or even to governmental experimentation, for the means of future progress.

Beside those cases in which the private incentive system is notably weak, there are cases in which a co-operative or public agency is equipped to do the work notably well. Where the chief thing needed is accuracy, and the most important industrial quality is disinterestedness, there is little need of the stimuli of ordinary industrial competition, and they may, indeed, be fatal to the peculiar reliability of result that is wanted. In the case of employment agencies, for example, we are rapidly finding out that the disinterestedness of a public agency is a far more essential quality than any of the good points which private enterprise may have in this field. This is in essence simply another form of the socialization of economic knowledge. The diffusing of information about prices is an important service which may in some cases be well rendered by private enterprises, but is by no means certain to be rendered at all unless some public agency takes the responsibility.

One clear case of this is the work of testing whether things conform to standards where standards have already been established. In other words, it is the sort of work which the present Federal Bureau of Standards is doing, with an ever-widening scope. The work of establishing standards themselves, based on the best existing practice, or on the combination of the best single elements to be found in existing practice, into a new standard better than anything actually found; such work as this, in well-selected fields, is clearly a proper function of government in the present state of industrial and scientific development. But how about the work of breaking new ground and making new discoveries? Is not government proverbially cautious and unenterprising in its conduct of productive enterprises?

Yes, public enterprise is cautious, and has often proved unenterprising, but nevertheless the conclusion which seems so obvious does not necessarily follow, namely, that it is useless to look to government for any industrial innovation. When a government official is given a task it is not the part of caution to do nothing at all. But it is the

part of caution to see to it that the task is accomplished with as few risks as possible of doing anything which may prove to be an expensive mistake. If the task is the running of an industry or the rendering of a definite material service, the public manager will stick to established methods if they work tolerably well, and what experimenting he does will involve the risking of the tolerable result already obtained, or at least will involve an expense which will be a burden on his financial showing, and so to that extent a risking of his present tolerable result. And experiments are extremely likely to go wrong.

But suppose the business with which this public official is charged is that solely of experimenting? He has no other service whose results may be endangered by the failure of any given experiment to materialize. What will he do? He will do his job, and try to show results—a thing he can do only by continued achievement. If he is working in competition with private laboratories, he is under the genuine competitive stimulus, with all that this implies.

D. CHECKS ON DEVELOPMENT

394. Industrial Freedom and Prosperity¹⁰

BY JAMES J. HILL

Among the radical and permanent, as distinguished from the partial and temporary, causes of bad times, one stands out pre-eminent by the volume of its effects and the persistence with which it has raged all over the country, namely, the legislative crusade against business. I speak here of no particular act, for the business interests of the country as a whole have been under fire for more than ten years. The attack has steadily increased in violence and decreased in discrimination. The ingenuity of restless minds has taxed itself to invent new restrictions, new regulations, new punishments for guilty and innocent alike.

While existing laws were allowed to fall into more or less disuse, new laws were heaped on one another. Each of these invaded some new territory, laid the hand of authority upon some new occupation, drew closer the circle of business interference to bureaucracy. Innovation scarcely stopped short of declaring any distinct business success *prima facie* evidence of crime. The country is feeling the inevitable effect.

¹⁰Adapted from an address delivered before the Rochester Chamber of Commerce, December 5, 1914.

When hostile regulation goes to this extent, without promise of limit to either its objects or its orders, business comes to a halt though tariff rates are raised to the skies. It cuts down present activity, and it puts a veto on all expansion. The present may be obscure, but the future looks black. For here industry begins to feel the indispensable effects of capital withdrawn, and to realize the effects that follow its withdrawal.

Nowadays it is the fashion to overlook the claim of capital in production. The mistake is costly. For new plants will not be built, raw material will not be bought, wages cannot be paid unless capital is ready in sufficient quantities. It will be ready only on condition that it expects to earn at least a reasonable profit. There is no reason why it should take the risks present in even the most conservative employment unless there is a possibility of commensurate profit. That possibility must have a promise of continuance sufficient to make it worth while to go into the enterprise at all.

Now it is exactly these indispensables, a fair return and a reasonable lease of life, that continuous legislation against business has destroyed, or has threatened to destroy. Politicians have acted upon the theory that it is good to burn down your house because a chimney smokes. Fire has been started in many places.

Our progress toward a centralized paternalism is so marked and has gone so far that the Socialist has little reason to complain that his party has not secured a majority. Every year sees the transaction of business made more expensive by laws prescribing multiplied and costly reports, ordering expensive improvements or additional services, laying new taxes, compelling the hiring of additional employees.

This is the history of paternalism, of centralization, since the beginning. Under the tribute it attempts to levy, business in the United States will eventually become unable to conform to the onerous conditions of the new era. It would be some compensation if the governing system were efficient. But it is as incompetent as it is expensive. This is not the fault of any man or party; it inheres in the method itself, and in the persistent American delusion that democracy can afford to overlook, in its selection of governing instruments, the question of fitness. Nowhere else outside the strictly barbarous countries is the idea that public place should presuppose some direct business qualification so contemptuously rejected.

Industries which represent billions of capital, capital belonging largely to people of moderate means, are under the order of officials chosen for political reasons, many of whom could not earn on their

merits a salary large enough to keep them alive in the service of the concerns which are now at their mercy. It is not malevolence, it is not corruption, that strikes at the heart of business so dominated; it is the ignorance of well-meaning men who have been placed, for political considerations, where they do not belong, where they can do no good, and may be able to do immense harm.

It is a master-stroke of irony that while business all over the country has been spending time, effort, and money in an endeavor to realize efficiency, the governments to which it must render an account and whose orders it must obey remain the most striking examples of inefficiency to be found anywhere in the world.

The main outlines of the business situation are clear. The country may enter, after the close of the European war, upon a period of remarkable prosperity. So it will be given the task of providing for a time for a maintenance of a considerable portion of the world's industry. The great and continued demand should be a guaranty of a corresponding prosperity. It would be so if no artificial conditions intervened. But, to realize this, both capital and business initiative must have reasonable freedom. But it is less easy to take advantage of opportunities than ever before. At every promising opening industry sees a sign-board, erected by public authority, bearing the words "No thoroughfare." If the next five years are to repeat the history of the last ten, there can be no general improvement and no general prosperity in the United States.

These words are not spoken hopelessly. The American people have an enormous fund of underlying common-sense. It is fundamentally conservative, though it loves to follow the circus parade once in a while, listen to the music, and applaud the clown. Since, its own well-being is now definitely at stake, it is not unreasonable to hope that it will take a few simple steps toward the realization of its hopes.

The first and indispensable requirement is a respite from attack for the business interests of the country. So great are its recuperative powers that probably one or two years of freedom from foreboding as well as from assault would accomplish great things for industry.

Subordinate the extension of the sphere of governing power to an improvement of its quality. It is time for all to remember that no man has a right to hold public office, from the top to the bottom, unless he has knowledge of that line of work.

Rest from agitation, intelligent economy, efficiency, harmonious co-operation for business institutions as well as for political divi-

sions—these are not abstruse ideas. They are things as long familiar and as little revered by the mass of men as the contents of the Decalogue. We must go back to them or suffer the penalty paid by every creative thing that defies the law of the physical or that of the moral order of the world.

395. The Futility of Utopian Legislation¹¹

BY ELIHU ROOT

When proposals are made to change our fundamental institutions there are certain general conditions that should be observed.

The first is that free government is impossible except through prescribed and established governmental institutions, which work out the ends of government through many separate human agents, each doing his part in obedience to law. Popular will cannot execute itself directly except through a mob. Popular will cannot get itself executed through an irresponsible executive, for that is autocracy. An executive limited only by the direct expression of popular will cannot be held to responsibility against his will, because, having possession of all the powers of government, he can prevent any true, free, and general expression adverse to himself. We should, therefore, reject every proposal which involves the idea that the people can rule only by voting.

A second is that in estimating the value of any system of governmental institutions due regard must be had to the true functions of government and to the limitations imposed by nature upon what it is possible for the government to accomplish. We all know that we cannot abolish all the evils in the world by statute, nor can we prevent the inexorable law of nature which decrees that suffering shall follow vice, and all the evil passions and folly of mankind. Law cannot give to depravity the rewards of virtue, to indolence the rewards of industry, to indifference the rewards of ambition, or to ignorance the rewards of learning. The utmost that government can do is measurably to protect men, not against the wrong they do themselves, but against the wrong done by others, and to promote the slow process of educating mind and character to a better knowledge and nobler standards of life and conduct.

We all know this, but when we see how much misery there is in the world, and some things that government may do to mitigate it, we are prone to forget how little, after all, it is possible for any

¹¹Adapted from *Experiments in Government and the Essentials of the Constitution*, pp. 11-22. Copyright by the Princeton University Press, 1913.

government to do. The chief motive power that has moved mankind along the course of development that we call the progress of civilization has been the sum-total of intelligent selfishness in a vast number of individuals, each working for his own support, his own gain, his own betterment. It is that which has cleared the forests and cultivated the field and built the ships and railroads, made the discoveries and inventions, softened by intercourse the enmities of nations, and made possible the wonders of literature and art. Gradually, during the long process, selfishness has grown more intelligent, with a broader view of the individual benefit from the common good, and gradually the influences of nobler standards of altruism, justice, and sympathy have impressed themselves upon the conception of right conduct. But the complete control of such motives will be the millennium. Any attempt to enforce a millennial standard now by law must necessarily fail. Indeed no such standard can ever be forced. It must come, not by superior force, but from the changed nature of man.

A third is that it is not merely useless but injurious for government to attempt too much. It is manifest that to enable it to deal with the new conditions we must invest government with the authority to interfere with the individual conduct of a citizen to a degree hitherto unknown in this country. While the new conditions of industrial life make it plainly necessary that many such steps shall be taken, they should be taken only so far as they are necessary and effective. Interference with individual liberty by government should be jealously watched and restrained, because the habit of undue interference destroys that independence of character without which, in its citizens, no free government can endure. Just so far as a nation allows its institutions to be molded by its weakness of character rather than by its strength, it creates an influence to increase weakness at the expense of its strength. Undue interference by government is at the expense of individual initiative, energy, enterprise, courage, independent manhood.

A fourth is that in the nature of things all government must be imperfect because men are imperfect. Every system has its shortcomings and inconveniences; and these are seen and felt as they exist in the system under which we live, while the shortcomings and inconveniences of other systems are forgotten or ignored. It is not unusual to see governmental methods reformed and, after a time long enough to forget the evils that caused the change, to have a new movement for reform which consists in changing back to substantially the same old methods that were cast out by the first reform. The recognition of shortcomings is not in itself sufficient to warrant

a change of system. There should be an effort to estimate and compare the shortcomings of the system to be substituted, for although they may be different they will certainly exist.

A fifth is that, whatever changes in government are to be made, we should follow the method which undertakes as one of its cardinal points to hold fast that which is good. When we take account of all that governments have sought to do and have failed to do in this world, we find as a rule that the application of new theories, though devised by the most brilliant constructive genius, have availed but little to preserve the people for any long periods from the evils of despotism on one hand or of anarchy on the other, or to raise any considerable portion of the mass of mankind above the hard conditions of oppression and misery. And we find that our system of government, built up in a practical way through many centuries, has done more to preserve liberty, justice, security, and freedom of opportunity, for many people for a long period, than any other system of government ever devised. Human nature does not change very much. The forces of evil are hard to control, as they have always been. It is easy to fail and hard to succeed in reconciling liberty and order.

396. The Price-System and Development¹²

BY WALTON H. HAMILTON

A response to immediate pecuniary interest has greater influence upon the conduct of individuals than a consciousness of their more ultimate interests as members of competing groups; yet out of their responses to individual interest, so diverse and so contradictory, a coherent social development has sprung.

This coherence has its source in the organization of the personnel of our industries in the form of a hierarchy. At its apex are the enterprisers, recipients of large incomes, endowed with comprehensive industrial powers, and, perhaps most important of all, possessed of unusual control over public opinion. Their vantage position has come with the great transformation of life and values which we call the industrial revolution. The nature and scope of this will be made clear by a brief comparison of the older craft system and the newer machine process.

The craft system tends to a diffusion of wealth and industrial initiative. It has its basis in the tool, whose cost is small and

¹²Adapted from "The Price-System and Social Policy," *Journal of Political Economy*, XXVI (1918), 54-66. Copyright by the University of Chicago.

whose utility extends to an infinitude of tasks. Where it still dominates technique, as in agriculture and retail selling, productive establishments are small, numerous, and widely scattered. The prevailing type of organization is the personal establishment or the partnership. Among those engaged in these industries there may be something of a common viewpoint, system of thought, and scheme of ideals. Where these exist they are unconsciously held and owe their strength, not to communication and organization, but to the influence of similar working conditions. But the disorganization attending the multitude of establishments prevents the rise of a clearly defined group-consciousness which finds expression in a concerted program. Nor is there present the host of dependents who can be persuaded, at least for the moment, that their interests are identical with those of their employers. Lacking means for forcing their viewpoint and ideals upon their own and other groups, the men busied with the craft technique are in positions of small strategic importance.

The modern industrial system, on the contrary, tends to a concentration of wealth and industrial control. It has as its basis the machine, which is a complicated collection of parts, costing much in labor and accumulated wealth, and useful for a highly specialized task. The specific character of its work makes necessary in a single establishment a large number of machines differentiated in function. The small contribution which can be allowed it for the work which it performs upon a single unit of product inhibits its use in any save large establishments. Accordingly plants using the new technique are likely to be of immense size, small in number, and highly concentrated. Their corporate form of organization puts control of them in the hands of a small number of men. This, with the small number of really large establishments, gives rise to a group differing from others in wealth, in industrial function, and in habits of life. The small number and the identity of function facilitate communication and lead to the informal rise of common habits of thought, industrial ideals, and methods of action. In time there arises among them a conscious sense of solidarity of interests. However much they compete with each other, they are alike opposed to legislation or informal action designed to increase the prices of cost goods. Likewise they are agreed as to the desirability of any proposal promising a further expansion of business. The ease of communication and the identity of interests permit these and similar beliefs and desires to find expression in a consistent program. A connection between the realization of this program and the dividends which they regularly

expect is sufficient for its diffusion in the much larger circle of the owners of the industries.

The vantage-point held by the enterprisers is further emphasized by the unique position which the industries that they command occupy in the public mind. The concern of the American intellect is distributive rather than collective; particular rather than general. It thinks in terms of the single establishment which it sees rather than of the nation-wide industry which it can perceive only in the abstract. It attributes immense importance to manufacturing because of the vast smokestacks, the massive piles of brick, and the hosts of laborers of the single establishment. It denies a like social importance to agriculture because it cannot escape the picture of two buildings upon a hundred acres, an assortment of small tools, and an antiquated use of horse-power. Its unfamiliarity with totals leads it habitually to see in every new establishment an increase in wealth rather than a mere diversion of capital from other lines of endeavor. So firm is the conviction that machine industries are all good that one finds no city insisting that its importance is to be measured by other things than the number of its factories and population. He detects no evidence of a civic pride which insists that problems are growing faster than they can be solved and that industrial expansion be halted until they be got in hand. On the contrary, convention is for instance, sees in the industrial plant the city possessed of its wide variety; in the farm, the country with its dull monotony. Likewise to the gifts of a benevolent nature.

The strategic position of the managerial class makes easy the dissemination of their viewpoint and would-be policies. The very nature of the productive process which runs its interminable length from raw materials to finished goods furnishes many opportunities for propaganda. Only a few of its many operations are performed in establishments making large use of machinery. It connects at alike to the contributions of the industries still using the tool and giving an even added importance to machine industry. The public, it attributes the great increase in material wealth and the advance in the standard of living entirely to the machine process, oblivious many cases they produce raw materials which the larger concerns many points with businesses in which the newer technique has only a nominal hold. These smaller concerns are under the necessity of disposing of their products and of securing profits regularly. In use; in others they sell to laborers employed in the large establishments; in still others they turn out goods whose uses are complementary to those of the products of large businesses. With an eye to

immediate profits they see a benefit to themselves in the advancement of the pecuniary interests of the large establishments. They are thus disposed to the favorable reception and advocacy of proposals promising immediate pecuniary returns to the larger concerns.

A second connection favorable to the dissemination of such views is the existence of industries and professions subsidiary to technical production. In the development of the industrial system a number of such complementary businesses have grown up. Chief among them are the agencies for credit, such as banks, loan and mortgage associations, insurance companies, and the exchanges. Their common concern with finance unites them into a single compact group in which the larger establishments are dominant, and which penetrates into every nook and corner of the industrial system. The larger establishments perform functions essential to large-scale industrial operations and derive their profits from that source. In many cases they are creatures of manufacturing, mining, and transportation companies. Their connections result in an identification of their interests with those of large industrial corporations. Their position in the financial system makes easy a dissemination of their opinions among the men in smaller establishments. Finally the intimate connections of the financial system with all kinds of businesses give opportunity for a general circulation of managerial theory and opinion.

A kindred subsidiary interest is the legal profession. In the transformation which has come over it in the last half century, law has become an adjunct to business. Its practitioners have constant association with members of the managerial class, they are frequently called to managerial positions, the possibility of the most lucrative employment comes from that source, and the career of the lawyer of importance is spent in advancing business interests. As a complement to personal interest the nature of the system in terms of which the lawyer does his thinking makes him a ready, even if unconscious, agent of propaganda. For it is evident that the individualistic assumptions of the law, with their implication of the substantial immutability of social arrangements, are strikingly in harmony with the managerial theory of the universe.

The press constitutes a third vehicle for the dissemination of this theory. Both the magazine with its country-wide circulation and the newspaper whose influence is confined to a single city have fallen under corporate ownership. While the personal traditions of an earlier age have not entirely departed, the concern is organized as a money-making venture, its stockholders cry aloud for

dividends, and its policy tends to be regulated by business principles. To this end it must have both advertising and subscriptions. But its revenue comes largely from the former, and the latter is of importance only as indicative of a circulation that can be made to appeal to the advertiser. In view of this, the independence of the editors has been giving way to a subordination to the business office. The latter has come to exercise a censorship both over news and over editorial expression. The first, taking the form of standards of taste as to what is to be published, becomes a matter of aesthetics rather than one of liberty of utterance. The restraints upon editorial utterance are more open, but even here the question is merely one of maintaining the traditional policy of the paper. Because of these changes a large part of the press has come to a willing, even if unconscious, instrument for the dissemination of fact and fiction favorable to the immediate pecuniary interests of the managerial class. All of these, bankers, brokers, lawyers, advertising managers, editors, and what-nots, have intimate personal relations with responsible business men. These tend to a common viewpoint, common habits of thought, and a common theory of social welfare.

The social policy which the price-system permits to be formulated accordingly meets two requirements. The first is a demand for a preservation against collective action seeking to change conventional arrangements, for a change in the fundamental conditions under which industry is carried on is accompanied by radical disturbance in the structure of prices. These are manifest in financial disorder, friction, scrapping of capital, unemployment of labor, and other disadvantages pertinent to the temporary breakdown of the system. The second is an approval of a program of exploitation or expansion which gives promise of increases in pecuniary incomes. In anticipation of these the members of all social groups regard the disorganization incident to enlargement as a slight inconvenience. Thus the immediate interests of the groups unite in a program favorable to the creation of new money-making opportunities and opposed to changes in institutions.

Thus the price-system plays a conservative rôle in social development. It is true, as has been so ably argued, that men do not renounce radical programs because of any conscious fear that their realization will bring economic disorganization and social chaos. Yet, if we were possessed of the eighteenth-century belief in the moral efficacy of man's instincts, we might argue that intuitively men obey just this restraint. Each is conservative in action lest radical changes sweep

away his income. But one's income is but an aspect of the price-system, and its disappearance a mere incident of a more or less general disintegration of the price-structure. Hence the instinct which leads one to protect his income really functions to the preservation of the price-system against radical changes bringing with them general economic demoralization. On this basis one who believes in the system as ordained can easily see in the scheme of articulated prices a safety device, an institution whose function is the preservation of industrialism by protecting it against innovation. Certainly we may concur by admitting that the price-system imposes restraint upon innovation and thus gives continuity to industrial development.

E. CONTROL BY EDUCATION

397. Education and Control¹⁸

Education is much more than a scheme of formal instruction. It includes all those agencies which help the individual to adapt himself to his social and intellectual environment. It comprehends all those institutions which supply him with an understanding that enables him to co-operate with his fellows in changing that environment. In this sense, in addition to the formal system of schools, it includes many activities of the church, the stage, the press, and the pulpit. Its domain extends into office and factory; its tools include many parts of the business and industrial process. In short, it includes all the instruments and agencies which are used for the organization and dissemination of knowledge, thought, and opinion.

In this larger sense education is an effective antidote against an attempt to dispose of our complicated problems of social well-being by superstitious and magical processes. Ignorance has always had a welcome for panaceas and has always ardently believed that almost anything is the better for a little "tinkering." Now that the war is gone, there is too generally a disposition to think that all our ills can be cleared away by the use of "industrial councils," "a League of Nations," or a return of the party in opposition to power. If the periodicals are to be believed, "The Tinkers' Chorus" might well become the national anthem. At such a time it is well to remember that new ways of doing things cannot be made to work at the hands of those whose minds cannot comprehend them or whose hearts are hardened against them. Understanding sets the effective limit of accomplishment. As individual knowledge and vision is limited, action for the common good is inhibited. A program for improve-

¹⁸An editorial, 1918.

ment has an effective check in public opinion. Since, under most favorable circumstances, understanding moves slowly from point to point, we will never lack a plethora of problems.

If, then, "understanding" is the "limiting factor" in social and economic development, it is well to note particularly the contribution which it makes to the social process, and to determine how that contribution can be increased. In a society such as ours the functions of education can be briefly set forth as follows:

1. It is necessary to the conservation of our human resources. Every child born into the world brings with him a bundle of latent resources. Some of these will be developed in any environment; some become atrophied, whatever the conditions of life. What talents and aptitudes are developed depend upon the conditions of development. For the sake of the child it is imperative that he be given the opportunity to develop the highest talents he possesses which can be of use in the society in which he lives. This opportunity should not be contingent upon his desire or the choice of his parents. Compulsory education is not the imposition of an obligation; it is a right. Only by its exercise can justice be granted to the individual. Only through it can society enjoy its resources. Ours is an interdependent society in which each enjoys the fruits of the other's labor. If all are to live well, it is imperative that the human resources used in the industrial process shall be developed resources.

2. It is necessary to the utilization of knowledge. The basis of our society is a complicated machine technique. Every occupation, profession, and activity in life is hedged about with a complicated body of knowledge and procedure. Agricultural experts tell us that knowledge of agriculture is a generation or two in advance of its application. Students of medicine insist that their science is many decades in advance of everyday hygiene. Accountants have devised systems of business records far in advance of those in general use. Education must bring to all sorts and conditions of men both the knowledge needed in their occupations and the more complex technique which has to do with health, leisure, and enjoyment in the great society.

3. It is necessary to the organization of opinion. In an autocracy knowledge of the decorous process of state and the devious ways of industry can remain the property of the few. The small group which acts for all alone needs to be informed and to make up its mind. In a democracy, where rulers keep their "ears to the ground," public opinion is the ultimate basis of policy. If all are to decide about what concerns all; and if they are to decide wisely and well, they must be informed. But this is not enough. On vital points

there must be agreement of opinion. Your opinion is not mine, and mine is not that of another. If each remains what it is, there is no basis for action. But if there can be discussion, understanding will emerge, out of which intelligent action can spring. In a democracy education is essential to a public opinion, based upon knowledge, which can control the development of industrial society.

4. It is necessary to make democracy real. The society in which we live is a complicated one. Almost all questions relating to the commonwealth are intricate and baffling. The opinions we pick up on the street or the intuitions we glean from our inner consciousnesses about monopoly, taxation, and industrial relations, are vague and undependable. Since the people control, the people must have knowledge and understanding if they are to choose wisely. In ignorance they can impose conditions upon the organization of industry or of life which will cost dearly. Only through education can they free themselves from the tyranny of the demagogue and impose upon all conditions for the good of all. Above all, in a democracy, it is necessary for them to see common problems in terms of the complex industrial society within which we have our precious existences. Only such education will protect all of us against the ill and mistaken judgments of the great mass of men. Without it, the ignorant will enslave themselves and us. With it they have the key to freedom.

In brief, education serves the double function of protecting the individual and society. It enables him to make the most of his latent talents and to choose his course of life intelligently. It enables all of us to enjoy the goods and services produced by developed human beings adapted to their environment, rather than the far smaller gifts of crude human material unfitted to its work. It permits the organization of knowledge and of opinion which are indispensable to a control of the common arrangements under which we work and live. Without it there can be no freedom in a democracy.

398. The Function of Vocational Training¹⁴

BY EDWIN F. GAY

It is evident that our educational organization has not kept pace with our industrial organization. The surrender of its educational function by industry and trade was apparent with the advent of the industrial revolution, and has become more obvious with its progress from country to country, from industry to industry, and from in-

¹⁴Adapted from "Preparation for Trade, Domestic and Foreign," *Proceedings of the Second Pan-American Scientific Congress* (1915), sec. iv, Part I, pp. 50-52.

dustry to commerce. Meanwhile, the educational system with its conservative ideas and traditional methods has only commenced to adjust itself to the radically changed conditions of the industrial environment.

The older social organization of Europe had evolved an educational equipment fairly sufficient to its needs. It was a society predominantly agricultural, with industry and trade limited to small individual units operating in local or restricted markets, and with a small governing class assisted by a group professionally trained for the church, the law courts and the public administration. Its agricultural workers were largely illiterate, but the traditional lore of husbandry and housewifery was passed on securely from generation to generation. The hard labor of the fields and the home, together with the proverbs and tales of the fireside, long furnished the schooling of the masses.

Even the educational institutions of the time were adjusted to the requirements of the agricultural community. Our long summer school vacation, now an absurd anachronism, is the survival from what, to use a modern term, we may call a part-time system. The young recruits from the handicraft shop and the trader's counting-house were trained by a system of long-time apprenticeship, under the eye of the master in shop and home, which gave the necessary but not highly specialized proficiency and returned in labor a fair compensation for the time and trouble of instruction. For this group and for a small part of the agricultural class the rudiments of reading, writing, and arithmetic came gradually to be provided by supplementary teaching.

The higher schools for the few of the upper classes, following mediaeval and humanistic models, were not merely engaged in preserving the thin classical tradition as a veneer to the leisure class, but gave the essential foundation for a professional career. Latin, for instance, was a necessary tool for the churchman, the lawyer, the administrator, and the diplomat. The education of the university was vocational. The whole educational system, crude and imperfect as it was, was firmly rooted in a relatively stable social organization and was adapted to its simple needs. From its long persistence it developed on its formal side a traditional authority and prestige which, upheld zealously by its university leadership, has been maintained, with perhaps some impairment, through a century of defective readjustment.

Compared with the slow-moving industrial changes of earlier periods, the modern factory system, with its sudden and eruptive

force and its enormous social reactions, may justly be called revolutionary. It has undermined and is still undermining theoretical education for the working life which was given under the older order, and it is now making great demands upon the school, formerly only a subordinate adjunct, which the school has been unprepared to meet. The extreme subdivision of labor which characterizes modern business organization has inevitably destroyed the institution of apprenticeship. Factory products have supplanted the diversified handiwork of the home. The new marketing methods, reaching a wider and denser mass of consumers, like the large-scale production which called them into being, are developing large distributing organizations within which the giving of a comprehensive trade education is increasingly impossible. Even in agriculture the new spirit of scientific method and commercial enterprise is displacing old custom. The farmer's children can no longer trust the wise saw and ancient precept handed down from the elders.

The business man is apt to take the schoolmaster to task for a great gap in our educational equipment, the absence of a satisfactory vocational training, for which the business man's modern methods are responsible. The school must take up this burden, almost entirely relinquished by industry and trade.

The democratic ideals of the young republic have combined with educational conservatism to check an early differentiation in the character of training. Such differentiation is easier in a stratified society with clearly marked class distinctions, but in one in which the ideal of equality of opportunity exists and where newly settled regions have opened wide to all the door of opportunity, there is reluctance to force the child to an early choice of occupation. Parents tend to choose for their children that school which keeps the choice of career open rather than that which definitely determines it. This helps to account for the acquiescence in the non-vocational character of much of our education. The school has hesitated to assume the increased responsibility of directing the vocational destiny of its pupils. Until, therefore, the higher school has come under the serious pressure of its social and economic environment, it has been content to follow the scholastic ideals appropriate to the different social class for which in earlier times its educational facilities were provided.

It is clear that for mastery in any occupation there must be systematic training in the chosen vocation. Our difficulty has been that, with the unavoidable withdrawal of the business man from direct educational guidance and with the reluctance of the school to under-

take the new responsibility, the boy and the girl were ill equipped for the work of life. Too often there has been no systematic training at all. Not only was there a failure to meet the economic needs of the world outside the school, but with the absence of a definite vocational motive there was also a failure to interest the student in the deferred values of the studies pursued within the school. The school was rendering service with its broadening cultural studies, but it was not satisfactorily fulfilling its function either to society or to the individual.

399. Education and Social Theory¹⁵

BY A. CLUTTON BROCK

Behind all educational theory there must be social theory. We must know what we wish society to be before we can know what we wish education to be. All ideas about education are based upon ideas about society, even where no social theory is consciously expressed. Thus there is a view of society as a machine existing for some material purpose, either for national survival or the survival of the human race, and of every individual as a part of that machine. Where that view of society is held, education is conceived of as a means of discovering what part each individual is by nature suited to play in the machine, and of training them all for their parts when their fitness has been discovered.

With this theory of education is commonly associated the idea of the educational ladder, which many people believe to be democratic. By means of this ability is discovered in all classes, and an able boy has his chance of becoming a member of the governing class, no matter who his parents may have been. The educational ladder existed in some form, in the Roman Empire and in the Catholic Church of the Middle Ages. It still exists, to some extent, in the Roman Church, so that a peasant may become a pope. But, while it may raise an able boy out of his class, the educational ladder does not necessarily improve the circumstances of those who remain in the class of their birth, and, according, to all mechanical theories of society, that improvement is not, of itself, to be aimed at. Society is in the first place a machine, and the first necessity is to train all to play their parts in that machine. If they are lowly parts, then the more narrow and specialized the training, the better. It would

¹⁵Adapted from "Two Views of Society—and Education," *Workers' Education Association Yearbook for 1913*, pp. 33-38. Copyright by the Workers' Educational Association.

be folly to educate them to become discontented with the functions they have to perform. For the good of the machine they are necessarily sacrificed, as human beings, to their mechanical efficiency. They are broken in like domestic animals and trained to expect only the amount of happiness compatible with the proper performance of their functions.

Again, there is the humanistic conception of society and of education. The essence of humanistic education is, not merely that it should not be vocational—in some cases it might be vocational—but that what is learned should be learned for the love of the subject. In humanistic education all thought of the struggle of life is banished, and it seems desirable only to those who believe that the universe is so happily constituted that an individual and a society can be fitted for the struggle of life by an education which ignores it. It is based, therefore, upon a certain faith, a faith contrary to the belief that society is a machine constructed for success in some form of the struggle for life. According to that faith a society so constituted will not in the long run win the success it aims at. He that would save his life shall lose it. Rather the popular aim of society is to sacrifice no one individual, either to other individuals or to a general efficiency.

This education is called humanistic because it is based on the belief that men are first of all men, not animals, servants, or tools. This belief we all profess to hold in so far as we accept the Christian view of life; but in practice most of us are a little afraid of it. Where this view of life is held, the mechanical theory of society must be rejected. Society must be regarded, not as a machine constructed for some definite material purpose, but as an association of human beings. Being alive, then, it is not fully aware of its purpose. All living things discover the purpose of their life, so far as they do discover it, by living. It is not made for them as for a machine. They grow in consciousness as in other things, and always there is before them a goal of which they are never conscious.

Society, then, being composed of human beings, exists for them, for all and each of them, in the present. Its test is their happiness, which is not to be sacrificed to any theory about the future of society or to any hard and fast definition of its end. For we know this, at least, that the aim is to be discovered, so far as it is discoverable, by all the members of society, and not by any select body of men scientifically observing society as if it were a foreign and inferior object. And the members of society have the best chance of discovering its end, and of achieving it, if they are themselves happy, if they are all living well in their relations with each other, if all

have opportunity for the development and exercise of the highest faculties.

For, since society is itself a living thing, its life is the life of all its members. None of them can be unhappy or unwise without communicating unhappiness and unwisdom to the whole. That society is the best and healthiest in which the higher functions are most generally distributed, and in which all men are educated with a view to the exercise of those higher functions. That, I need hardly say, is the democratic theory. It is based upon the conception of society as a living thing, not as a machine, and we must judge all theories and measures which profess to be democratic by this test.

Now if we apply the democratic theory to education we shall find that we are led to certain difficult and dangerous conclusions. For the educator every child will be, not the raw material out of which a part of the social machine can be made, but a human being whose life is to be part of the life of society. And to the educator all these children, being human beings, will be equal. His business is to develop them as human beings without regard to the particular stations they may have to occupy when they are grown up. To him these differences in station and in functions will be evils, even if necessary evils.

Thus, if people tell him that the children of the poor ought not to be taught music, since music will be of no use to them in the factory, his answer will be that to him they are not the children of the poor, but children, and that children should be taught music. If our present society is of such a nature that music is of no use to the poor, then by learning music the poor will become aware of the defects of our society, will see that it treats them as parts of a machine, not as living beings with the higher human desires. And, if they are aware of these defects, they may themselves attempt to remove them. We have to choose at present between a society in which the poor are aware of higher desires unsatisfied and one in which they are not aware of higher desires at all. It is a choice of evils, but the question is, which choice will lead to greater evils?

One who holds the humanistic theory of education will not ask himself whether his teaching is likely to produce discontent, for he does not see society as a machine or education as a means of making the machine run smoothly. If he arouses discontent in his pupils by arousing their higher desires, then it is the business of society, including his pupils, to remove the causes of discontent. Such discontent is to him divine.

If, accepting the machine theory, we educate the masses of the people so that they are fit only for a low quality of labor, we train them also to a misapplication of labor, and so to an inevitable war of class against class, carried on by them with a blindness equal to our own. There is no way out of it except to see them in their childhood just as we see our own children, to see them as members of our own family, and to deny ourselves for their education as we should deny ourselves for the education of our own children. For if we as a society are not a machine for the turning out of trash and the fomenting of a class war, we are a family, which is the type of all living societies, and the happiness of the family depends on the education of all its members. You cannot turn some of them into tools or drudges without making the life of the rest duller and poorer and less happy. You cannot escape from your poor relations, however much you may try to forget them. At least, the more you succeed in forgetting them, the more, and the more bitterly, they will remember you.

400. A Primary Culture for Democracy¹⁶

BY CHARLES H. COOLEY

One who looks even a little beneath the surface of things may see that there is no question more timely than that of culture, and none which has more need of fresh and fundamental conceptions. It is by no means merely a question of the decoration of life, or of personal enjoyment; it involves the whole matter of developing large-minded members for that strong democracy which we hope we are building. Without such members such a democracy can never exist, and culture is essential to the power and efficiency, as well as the beauty of the social whole.

We may all agree that culture means the development of the human and social, as distinct from the technical, side of life. Our recent growth, so far at least as it is realized in our institutions, has been mainly technical, the creation of an abundant economic system and a marvellous body of natural science, neither of them achievements of a sort to center attention upon what is broadly human.

Our democracy, in spite of its supposed materialism, has long had at heart the ideal of culture. We are not satisfied with beholding the multiplication of material things, nor even with the hope of greater justice in their distribution; we want joy, beauty, hope,

¹⁶Adapted from an article with the foregoing caption in *Publications of the American Sociological Society*, XIII (1918), 1-17. Copyright.

higher thoughts, a larger life, a fuller participation in the great human and divine whole in which we find ourselves. Even those popular movements which formulate their ends in material terms are not really materialistic but get their strongest appeal from the belief that these ends are the conditions of a fuller spiritual life.

Another reason for turning our thoughts to culture is that the economic outlook demands it. We are apparently entering upon a period of cheap, standardized production upon an enormous scale, which will multiply commodities and perhaps increase leisure, but will make little demand upon the intelligence of the majority of producers and offer no scope for mental discipline. Work is becoming less than ever competent to educate the worker, and if we are to escape the torpor, frivolity, and social irresponsibility engendered by this condition, we must offset it by a social and moral culture acquired in the schools and in the community life.

Our culture must be a function of our situation as a whole. If it does not function in the whole, it is nothing. I am in sympathy with those who cling to the great humanistic traditions of the past. There can be no real culture that is altogether new; it can only be a fresh growth out of old stems; but it must be that; it must be new in the sense that it is wholly reanimated by the spirit of our own time. Any attempt to impose an old culture upon us merely because the educated class cherish it, or because it can be supported by general arguments which have no reference to our needs, must fail. Through control of institutions the classicist, the scientist, or the religionist may for a time force the forms of an old learning upon a new generation; but before long all that does not vigorously function in the life of the day will slough off and be forgotten.

Certainly no culture can be real for us that is not democratic. This does not mean, however, that it must be superficial, or commonplace, or uniform. Democracy is at bottom a humane, inclusive, and liberal organization of life, and a democratic culture will be based upon large conceptions, meeting the needs of the plain people as well as of the privileged classes, and worked out largely through the schools and other popular institutions. The idea that such a culture must lack refinement and distinction has no basis in sound theory. An undemocratic humanism, in our time, is not humanism at all.

We should recognize, however, that such traditional culture as we have is not democratic for the most part, but involves the inheritance, through an upper class, of the conceptions of an outworn society. The very word "culture" is in somewhat bad odor with

people of democratic sympathies, because it suggests a parasitic leisure. Nothing could be more timely than that the plain people should take up the idea, re-interpret it from their point of view, and give it a chief place on the program of reform.

A living culture is not only an organic part of life as a whole, but it is a complex thing in itself. It must embrace two main-aspects : a common or primary culture of knowledge and sentiment diffused through the whole people, and a variety of more elaborate culture processes, informed with the common spirit but developed by small groups in diverse fields of achievement. The aim of a common culture must be a humane enlargement of the thought and spirit of the people, including especially primary social knowledge and ideals ; inculcated in no abstract form, but appealing to the imagination and assimilated with experience.

Of the studies now pursued in our primary schools those most plainly suited to be the means of culture are language and history, because they deal directly with the larger human life. Language studies should make the individual a member of the continuing organism of thought and enable his spirit to grow by interaction with it. For our people this means self-expression and a beginning appreciation of literature. Other languages, modern and ancient, belong to specialized culture, not to that of the whole people.

It might perhaps be thought that history would be a study of the humane development of mankind in the past, bringing home to our knowledge and sympathy the common life and upward struggle of the people, and so leading to an understanding of the social questions of our own day. But it is not that in any great degree at the present time. Although some teachers of history are striving to reanimate their subjects in accordance with modern social conceptions, it is my impression that this movement is only beginning and that the study of history in the schools conduces little to an understanding of matters of social and economic betterment.

The central thing in the study of the past common to all American children should be the history of our own country, conceived in a social spirit as our part in the universal struggle for humane ideals of life, political democracy and federation, economic opportunity, social freedom, and higher development of every sort. It should be easy to treat American history in this way and to keep it in constant relation to the ideals and endeavors of our own day.

No aspect of history is better suited to the uses of culture than is the economic aspect, the age-long striving for material support, comfort, and leisure, along with the development and mutations of

social classes, leading to our own problems of social justice. These are cultural because, on the one hand, they appeal to actual interest and daily observation, while, on the other, they lead directly to the most urgent questions of social progress. The fact that history has slighted these things, and that men may pass as experts in it who have made no serious study of them, is itself explicable only by historical causes.

However this may be, it is clear that on grounds of culture every child ought to know something of the struggles of the unprivileged masses to gain a share of the opportunity and outlook achieved by a privileged few. Our middle and upper classes are still, for the most part, limited to a view of such matters that is both undemocratic and uncultured, and which the schools do little to correct.

It seems that instruction in economics and sociology, of a simple and concrete kind, must be a part of universal democratic culture. How this should be related to history is perhaps an open question, but certainly the latter, as it is now understood, is wholly inadequate. When all these studies are informed by a common spirit it may be possible to unite them.

So intimate and so abiding is our relation to nature that natural science may well claim a place in any scheme for a basic humane culture. It would include enough of this to impress the mind with the rule of law in nature and to enable it to understand the experimental method by which man discovers this law and adapts it to his ends.

I must add that any school culture depends for its reality upon the personality of those who impart it. If the teachers and textbook writers were overflowing with those larger views and sentiments that are culture, the students would invariably get them. This in turn depends upon that more adequate recognition by the public of the place of teachers as leaders and exemplars of culture, from which intelligent selection and support would flow. The whole question is one that we cannot solve by any mere change in the curriculum, but is implicated with the spirit and organization of the community.

401. The Function of the College¹⁷

BY ALEXANDER MEIKLEJOHN

Let other men do what they may; we have a task that overtops them all. We have a part, a leading part, to play in making a mind for a nation. That is the goal on which our eyes are fixed, the

¹⁷Adapted from "The Mind of the Nation," an address delivered at a dinner of the Amherst College Alumni Association of Boston, February 4, 1916.

adventure in which, student and teacher alike, we are engaged. And so I take this as my theme, the mission of the college in helping to make a mind for this nation.

Has this nation a mind of its own? I fear not. A mind is an activity which gathers up disconnected opinions, impulses, desires, doubts, theories, and brings them into correlation and unity. Ideas, when they are within the same mind, become responsible one to another. Each of them must pay regard to all the rest. They cannot live in isolation, nor yet in little separate groups. The mind demands of them that they shall come together in genuine unity of spirit and of truth. This seeking after unity is the very essence of the thought-life of an individual, and only in the measure in which one achieves it can he be said to be alive at all. Just so it is in the thought of a nation. If we as a people can succeed in making our separate thinking responsible one to another, then as a people we have a mind. But if our thinkings fall apart, we are without a common mind and we must suffer all the ills of those who go through life not knowing what they do nor seeing where they go.

Is the place of judgment to be found in the newspaper? My impression is that we do not so regard it. Do we not commonly think of it as a special pleader, as representative of some "interest," as used by forces to further their ends, rather than as judge and critic rising above all interests and seeking to assign to each its due measure of significance and truth? It may be that we are not fair in thinking this. But whether it is fair or not, so long as this opinion prevails, the newspaper cannot be for us the maker of understanding. Nor can the magazine or book perform this service. And for another set of reasons neither the church nor yet the home can furnish what we need. No one of these commands our thinking as a whole. And even less our public men are able to bring our thinking under their control. They too are talked about, not as the men we trust to lead and guide us, but as the advocates of parties, sections, interest, creeds.

Where then shall we find the place of understanding, where go that judgment may be given upon the issues of our common life? More than any other institutions, it seems to me, the school and college must assume the task. And especially the liberal college must endeavor to become the place where the common mind is made and moulded. The liberal college is a place where men are trying to gather up the elements of our common life, of our moral, religious, aesthetic, political, economic, and social experience, so that we may understand them, may bring them into relation, may make of them an interpretation of human living. And for this task we must have

within the college leaders of men's thought. The liberal college cannot be merely a teacher of boys. It can teach boys properly only as it becomes a place of counsel and guidance for men. The college teacher must win and keep the confidence of his fellows as one who leads them in the work of understanding. He must command their trust both by integrity and by power. No man may say of him that he is the servant of an interest. Rich and poor, radical and conservative, the breaker down and builder up, alike must find him square and true and free. And in intelligence, as well as in integrity, he must be leader of his fellows. He is a man set apart to learn, to think, to study, to inquire, to question, to conclude—a man whose thinking on the matters he considers should be better than that of other men, just as the cobbler's shoes are better than those which you or I would fashion if we tried to make them for ourselves. To lead in thinking through the fundamental issues of our common life—that is the task of liberal college and of liberal teacher. And they must win the confidence of men that they can guide in making up the people's mind upon the things which are most precious and significant within the nation's life.

E. THE FUTURE OF INDUSTRIAL SOCIETY

402. Progress and Discontent¹⁸

sistent as they may appear, can easily be resolved into the same principle. Both spring from our impatience of the state in which we actually are. That impatience, while it stimulates us to surpass preceding generations, disposes us to overrate their happiness. It is, in some sense, unreasonable and ungrateful in us to be constantly discontented with a condition which is constantly improving. But, in truth, there is constant improvement precisely because there is constant discontent. If we were perfectly satisfied with the present, we should cease to contrive, to labor, and to save with a view to the future. And it is natural that, being dissatisfied with the present,

BY THOMAS BABINGTON MACAULAY

It may at first sight seem strange that society, while constantly moving forward with eager speed, should be constantly looking backward with tender regret. But these two propensities, incon- we should form a too favorable estimate of the past.

In truth, we are under a deception similar to that which misleads the traveler in the Arabian desert. Beneath the caravan all is dry and bare; but far in advance, and far in the rear, is the semblance of

¹⁸Adapted from *History of England*, I (1848), chap. iii.

refreshing waters. The pilgrims hasten forward and find nothing but sand where an hour before they had seen a lake. They turn their eyes and see a lake where, an hour before, they were toiling through sand. A similar illusion seems to haunt nations through every stage of the long progress from poverty and barbarism to the highest degrees of opulence and civilization. But, if we resolutely chase the mirage backward, we shall find it recede before us into the regions of fabulous antiquity. It is now the fashion to place the Golden Age of England in times when noblemen were destitute of comforts the want of which would be intolerable to a modern footman, when farmers and shopkeepers breakfasted on loaves, the very sight of which would raise a riot in a modern workhouse, when to have a clean shirt once a week was a privilege reserved for the higher class of gentry, when men died faster in the purest country air than they now die in the most pestilential lanes of our towns, and when men died faster in the lanes of our towns than they now die on the coast of Guiana. We, too, shall, in our turn, be outstripped, and in our turn be envied. It may well be, in the twentieth century, that the peasant of Dorsetshire may think himself miserably paid with twenty shillings a week; that the carpenter at Greenwich may receive ten shillings a day; that laboring men may be as little used to dining without meat as they now are to eat rye bread; that sanitary police and medical discoveries may have added several more years to the average length of human life; that numerous comforts and luxuries which are now unknown, or confined to a few, may be within the reach of every diligent and thrifty workingman. And yet it may then be the mode to assert that the increase of wealth and the progress of science have benefited the few at the expense of the many, and to talk of the reign of Queen Victoria as the time when England was truly merry England, when all classes were bound together by brotherly sympathy, when the rich did not grind the faces of the poor, and when the poor did not envy the splendor of the rich.

403. The Banquet of Life¹⁹

BY WILLIAM GRAHAM SUMNER

In 1886 a society published a set of analytical topics covering the field of social science. Among the topics which the student is invited to discuss is this: "The Banquet of Life, a Collation or an Exclusive Feast." The antithesis which is intended is undoubtedly that between

¹⁹Adapted from "The Banquet of Life" (1887), reprinted in *Earth-Hunger and Other Essays*, pp. 217-21, from the *Independent*, XXXIX, 773. Copyright by the *Independent* and Yale University Press.

a supply for all and a supply for a limited number. If there is any banquet of life, the question certainly is, whether it is set for an unlimited or for a limited number.

If there is a banquet of life, and if it is set for an unlimited number, there is no social science possible or necessary; there would then be no limiting conditions on life, and consequently no problem of how to conquer the difficulties of living. There would be no competition, no property, no monopoly, no inequality. Fresh air and sunlight are provided gratuitously and superabundantly, not absolutely, but more nearly than any other material goods, and therefore we see that only in very exceptional circumstances, due to man's action, do these things become property. If food were provided in the same way, or if land, as a means of getting food, were provided in the same way, there would be no social question, no classes, no property, no monopoly, no difference between industrial virtues and industrial vices, and no inequality. When, therefore, it is argued that there is, or was, or ought to be, a banquet of life, open to all, and that the fact that there is no such thing now proves that some few must have monopolized it, it is plain that the whole notion is at war with facts, and that its parts are at war with each other.

The notion that there is such a thing as a boon of nature, or a banquet of life, shows that social science is still in the stage that chemistry was in when people believed in a philosopher's stone; or medicine, when they believed in a panacea; or physiology, when they believed in a fountain of youth, or an elixir of life. Many of the phenomena of the present seem to indicate that this group of facts is just coming under the dominion of science. The discord and confusion which we perceive are natural under the circumstances. Men never cling to their dreams with such tenacity as at the moment when they are losing faith in them, and know it, but do not yet dare to confess it to themselves.

If there was such a thing as a banquet of life, open to all comers, to which each person was entitled to have access just because he was born, and if this right could be enforced against the giver of the banquet, that is, against nature, then we should have exactly what we want to make this earth an ideal place of residence. We should have first of all, a satisfaction which cost no effort, which is the first desideratum of human happiness, and which we have not hitherto ever seen realized at all except in the narrow domain of luck. Secondly, we should have abstract justice in nature, which we have never had yet, for luck is of all things the most unjust. We should also have equality, which hitherto we have never found in nature. Finally, we

should have a natural right which could be defined and enforced, not against men, but against nature—the trouble with natural rights hitherto has been that they could not be defined, that nature alone could guarantee them, and that against nature they could not be enforced.

If we take the other alternative and conceive of the banquet of life as a limited feast, then we see at once that monopoly is in the order of nature. The question of weal or woe for mankind is: what are the conditions of admission? How many are provided for? Can we, by any means open to us, increase the supply? But when we take the question in this form we see that we are just where we and our fathers always have been; we are forced to do the best we can under limited conditions, and the banquet of life is nothing but a silly piece of rhetoric which obscures the correctness of our conception of our situation.

When men reasoned on social phenomena by guessing how things must have been in primitive society, it was easy for them to conceive of a "state of nature" or a "golden age"; but, as we come to learn the facts about the primitive condition of man on earth we find that he not only found no banquet awaiting him here, and no natural rights adjusted to suit him, but that he found the table of Nature already occupied by a very hungry and persistent crowd of other animals. The whole table was already occupied—there was not room for any men until they conquered it. It is easy for anyone now to assure himself that this is the true and only correct notion to hold on that matter. If land ever was a boon of Nature to anybody it was given away to the plants and animals long before man appeared here. When man appeared, he simply found a great task awaiting him: the plants and animals might be made to serve him, if he could conquer them; the earth would be his if he could drive off his competitors. He had no charter against Nature, and no rights against her; every hope in his situation had an "if" in it—if he could win it.

We look in vain for any physical or metaphysical endowment with which men started the life of the race on earth. We look in vain for any facts to sustain the notion of a state of primitive simplicity and blessedness, or natural rights, or a boon of material goods. All the facts open to us show that man has won on earth everything which he has here by toil, sacrifice and blood; all the civilization which we possess has been wrought out by work and pain. All the rights, freedom, and social power which we have inherited are products of history. Our institutions are so much a matter of course to us that it is only by academic training that we learn what they have cost ante-

cedent generations. If serious knowledge on this subject were more widespread, probably we should have a higher appreciation of the value of our inheritance, and we should have less flippant discussion of the question: What is all this worth? We should also probably better understand the conditions of successful growth or reform, and toleration for schemes of social reconstruction.

Civilization has been of slow and painful growth. Its history has been marked by many obstructions, reactions, and false developments. Whole centuries and generations have lost their changes on earth, passing through human existence, keeping up the continuity of the race, but, for their own part, missing all share in the civilization which had been previously attained, and which ought to have descended to them. It is easy to bring about such epochs of social disease and decline by human passion, folly, blunders, and crime. It is not easy to maintain the advance of civilization; it even seems as if a new danger to it had arisen in our day. Formerly men lived along instinctively, under social conditions and customs, and social developments wrought themselves out by a sort of natural process. Now we deliberate and reflect. Naturally we propose to interfere and manage according to the product of our reflection. It looks as if there might be danger soon lest we should vote away civilization by a plebiscite, in an effort to throw open to everybody this imaginary "Banquet of Life."

404. Wanted: A New Symbolism²⁰

BY ALVIN S. JOHNSON

The aristocracies have vanished, we shall never know them again. The work of supplying the world, now and for the future, has become one of such complexity, requiring so broad a diffusion of general intelligence, that merely personal dignitaries can never again acquire their ancient influence over man's mind, their ancient hold on his conduct. There remains in the world only the common man. Differences in natural endowment, in culture and in wealth persist; but these can not alter the fact of a fundamental democracy. So far as we serve, we serve the common man.

But—and this we must fix in our minds—the common man of today is not the obscure citizen of earlier epochs. The same commercial process which has broken down the earlier class organization has produced a differentiation in economic structure, an interdependence of parts, which compels us to conceive of economic society

²⁰Adapted from "An Ethical Aspect of the New Industrialism," *South Atlantic Quarterly*, XII, 9-11. Copyright, 1912.

as a living organism. The common man of today compares with his prototype of yesterday as the cell in an organized tissue compares with the cell in the half-coherent mass of protoplasm. The functions of the individual are now organic functions, far transcending the narrow confines of his own personality. The pilot, the engineer, the steel worker, the coal-heaver, are significant, not in themselves, but in the social work they perform. With the progress of time, a constantly increasing share of the population assumes functions essentially social.

In serving the common man, then, we are performing a work far more worth while than that of supplying the needs of an individual, of whatever personal worth. We are serving a social functionary in the last analysis, society itself. Our work, then, is significant or meaningless according as we conceive society itself as worthy or not. If we are constrained to think of our society as ninety million persons, chiefly knaves and fools, the service will be irksome, to be shirked, if possible. If the society we serve is full of brutality and injustice, disfigured with poverty and ignorance, corrupted with cynicism and self-indulgence, it can not inspire us with loyalty in its service. The exhausting toil of the long day, the hopeless misery of the sweatshop, the sordid depravity of the slum, can not much longer cumber the earth if society is to command the best efforts of its servitors. We are not now concerned with the question of justice to those who live and toil in wretchedness. That question is worth considering in its proper place; it is sufficient here to indicate that, for the orderly progress of industry in the coming era, we must remove conditions that destroy our faith in society. Men in the service of society will give their best efforts only if society is worth serving.

But it is not sufficient that society should be worth serving, the worth of society and the worth of work in its service must be given concrete expression if these values are to mold men's conduct. Today these values are perceived, but dimly; they exercise an influence in limited fields. Men in the service of the railways, as a rule, endeavor honestly to realize the ideal of continuous and adequate service. Coal miners are loth to strike at the opening of winter. Their social function plays a part—though unfortunately a minor part—in controlling their economic policy. As a rule, however, the servants of society, employers and employees alike regard any peculiar dependence of society upon their services as an element strengthening their bargaining position, a peculiar opportunity for gain. The wheat is falling from the head; the fruit is rotting on the tree; an excellent time

for a concerted demand for higher wages! An industrial city has been built upon the expectation of the continuous supply of material: what an opportunity for the material producers to levy tribute! A whole nation lives from day to day upon the fruits of its mechanical industries; coal is its bread. A dazzling prospect of gain lies before those who can possess themselves of the mastery of the mines. Responsibility of function is opportunity for gain; so prevalent is this conception that when we assert that the use of responsibility for gain, not for service, is a species of treason, we seem to be harking back to the middle ages. And so we are. But there is much in the mediæval industrial spirit that is eternal: much that must be restored to our society after the disorders of an era of expansion and exploitation.

The worth of society and of work in its service—these are the social values that must govern in the new industrialism. As mere abstract ideas they can have no potency. As abstract ideas the kings and nobles of an earlier age had no potency; they were invested with the power of social values by the work of architects and sculptors, poets and philosophers. The poets, as it were, created kings and knights—ideals toward which actual rulers and nobles sought to elevate themselves. Architects and sculptors, painters and poets, can transform social man and society into values capable of dominating industry. The task may be difficult; but it is no more difficult than that of vesting glory in the House of Atreus or the House of Bourbon.

The ultimate need of the new industrialism, then, is not more trained skill, more applied science—although these two are good things in their way—but artists and poets who shall translate society and social man into terms of values worth serving. When these have done their work we shall hear less of the deterioration of labor and the abuse of responsibility, of industrial decay and social corruption, of irreconcilable conflict and threatened revolution. A revolution will have been accomplished: a revolution in ideals and in values.

APPENDIX A

READINGS OMITTED IN REVISION

The following list includes the readings in the first edition of this book, for which space could not be found in the revision. While they are less relevant than the readings included in this volume, most of them still possess value. They are given here for the convenience of readers who have access to the first edition:

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